



1998

Partnership Tax Booklet

Members of the Franchise Tax Board

Kathleen Connell, Chair
Dean Andal, Member
Craig L. Brown, Member

This booklet contains two copies of:

Form 565, Partnership Return of Income, pages 15 and 19
Schedule D (565), Capital Gain or Loss, pages 25 and 27

This booklet contains one copy of:

Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc., page 23

FTB 3538, Payment Voucher for Automatic Extension for Limited Partnerships, LLPs and REMICs, page 31

FTB 3885P, Depreciation and Amortization, page 25

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**State of California
Franchise Tax Board**

1998 Instructions for Form 565, Partnership Return of Income

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 1998**, and to the California Revenue and Taxation Code (R&TC).

General Information

A Changes to Note

In general, California tax law conforms to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal tax law. California has not conformed to the changes made to the IRC by the federal Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (Public Law 105-206) and the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277).

California law and federal law are the same regarding:

- Allocation of basis amounts for properties distributed by partnerships;
- Repeal of requirements that inventory must be substantially appreciated with respect to the sale or exchange of partnership interest;
- Extension of time for taxing precontribution gain;
- Transfer of property to foreign partnerships and corporations subject to information reporting;
- Controlled foreign partnerships and corporations subject to information reporting;
- Recognition of gain for a constructive sale of property in which the partnership held an appreciated interest;
- Closing of partnership taxable years with respect to deceased partners;
- Election by dealers in commodities and traders in securities or commodities to use the mark-to-market method of accounting. A federal election is considered to be an election for state purposes, and no separate state election is allowed;
- Reporting of certain payments to attorneys under IRC Section 6045(f). If the taxpayer complied with the requirements of IRC Section 6045(f) for federal purposes, the taxpayer will be deemed to have complied for state purposes;
- Exemption of the incremental cost of a clean fuel vehicle from the limits on depreciation for vehicles;
- Suspension of taxable income limit on percentage depletion for marginal production properties for tax years beginning after December 31, 1997 and before January 1, 2000; and
- Limitations on property for which the income forecast method may be used.

R&TC Section 18152.5 provides an exclusion (similar to the federal exclusion under IRC Section 1202) of 50% of the gain on the sale of qualifying small business stock originally issued after August 8, 1993, and before January 1, 1999, that was held for more than 5 years. However, for California purposes, 80% of the issuing corporations payroll must be attributable to employment located within California, and at least 80% of the value of the corporations assets must be used by the corporation to actively conduct one or more qualified trades or businesses in California.

California has not conformed to the following provisions of the Taxpayer Relief Act of 1997:

- Provisions relating to Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA);
- Simplified flow-through for electing large partnerships;
- Simplified audit procedures for electing large partnerships;
- Due date for furnishing information to electing large partnerships;
- Partnership returns required on magnetic tape; and
- Treatment of partnership items of IRA's.

California has also not conformed to the alternative minimum tax provision of IRC Section 57(a) for qualified small business stock. For state purposes, the partnership should include an item of tax preference equal to 50% of the amount excluded from gross income under R&TC Section 18152.5 on the Schedule K-1 (565), Partner's Share of Income, Credit, Deductions, etc., (R&TC Section 17062).

B Important Information

California Tax Information on the Internet

Do you need a California income tax form or publication? Do you have Internet access? If so, you may download, view and print 1994 through 1998 California tax forms and publications. Our Internet address is:

<http://www.ftb.ca.gov>

Federal Tax Information on the Internet

The Internal Revenue Service (IRS) also has federal forms and publications available to download, view or print. Their Internet address is:

<http://www.irs.ustreas.gov>

Substitute Schedule K-1 (565)

If the partnership does not use an official Schedule K-1 (565) prepared by the Franchise Tax Board (FTB) or a software program with an FTB approved Schedule K-1 (565), it must get approval to use a substitute form.

California encourages filing Schedule K-1 (565) on magnetic media. Get FTB Pub. 1062, Guide for Schedule K-1 (565) Filing by CD-ROM, Diskette or Magnetic Media, for more information.

FTB requires that all Schedule K-1 (565) for a partnership be filed in the same manner. DO NOT file some on paper and others on magnetic media for the same partnership. DO NOT file Schedule K-1 (565) on microfiche.

FTB provides K-1 Testware as a tool for preparing Schedule K-1s (565). The program allows the files to be tested prior to submitting them to FTB. This enables partnerships to submit error free files on the first attempt. For more information, see General Information T, Substitute Schedules.

Federal/State Differences

California tax law generally conforms to federal tax law in the area of partnerships (Internal Revenue Code, Subchapter K – Partners and Partnerships). However, there are some California law differences and areas of non-conformity:

- An annual tax is generally imposed on limited partnerships, limited liability companies (LLC), limited liability partnerships (LLP), and real estate mortgage investment conduits (REMICs) that are partnerships.
- Distributions to certain nonresident partners are subject to withholding for California tax.
- Deduction for taxes paid to other states is not allowed.
- California follows federal law by requiring partnerships to use a required tax year, but it does not conform to the federal required payment provision.

- California law has specific provisions concerning the distributive share of partnership taxable income allocable to California, with special apportionment formulas for professional partnerships.
- California has not adopted the federal definition of small partnerships, as defined in IRC Section 6231.

Please Note: This list is not intended to be an all-inclusive of the federal and state differences. For additional information, please consult California's Revenue and Taxation Code.

Revised Uniform Partnership Act (RUPA)

California has enacted RUPA which applies to partnerships formed after January 1, 1997. RUPA will apply to all partnerships after January 1, 1999. RUPA governs the formation, operation and liquidation of partnerships in California.

C Purpose

Use Form 565, Partnership Return of Income, to report income, deductions, gains, losses, etc., from the operation of a partnership. Form 565 is an information return for calendar year 1998 or fiscal years beginning in 1998.

D Definitions**Limited Partnership**

A partnership composed of at least one general partner and one or more limited partners.

A limited partnership that is filing **ONLY** to report California source income and is **NOT**:

- Doing business in California;
- Registered with the California Office of the Secretary of State (SOS); or
- Organized in California;

is **NOT** subject to the annual tax.

Limited Liability Partnership (LLP)

California law authorizes the formation of LLPs with activities limited to either the practice of public accountancy or law and related services and recognizes out-of-state LLPs doing business in California.

An LLP is a partnership, other than a limited partnership, that has a Certificate of Registration on file with the SOS as described in Corporation Code Section 15049.

Effective January 1, 1999, until January 1, 2002, the definition of "Professional Limited Liability Partnership Services" has been expanded to include the practice of architecture.

Real Estate Mortgage Investment Conduit (REMIC)

A special tax vehicle for entities that issue multiple classes of investor interests backed by a fixed pool of mortgages. Get the instructions for federal Form 1066, U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return, for more information. REMICs that are partnerships must use Form 565.

Additional Definitions

For definitions of a partnership, general partner, limited partner, nonrecourse loans, apportionment, unitary, etc., see the Partner's Instructions for the Schedule K-1 (565) and federal form 1065, U.S. Partnership Return of Income.

E Who Must File

Every partnership (including a REMIC treated as a partnership) that engages in a trade or business or has income from California source must file Form 565. Regardless of where the trade or business of the partnership is conducted, a partnership is considered to be doing business in California if any of its partners (general or limited) or other agents are conducting business in

California on behalf of the partnership. In such cases, the partnership is required to file Form 565.

An electing large partnership that completes federal Form 1065-B must still use the Form 565. California does not conform to the electing large partnership provisions.

Limited partnerships and LLPs, both domestic and foreign, doing business in California or that have a certificate on file or are registered with the SOS (whether or not doing business in California) must file a return and pay the annual tax of \$800.

For information about organizing and registering an LLP in California, contact:

LIMITED LIABILITY PARTNERSHIPS
OFFICE OF THE SECRETARY OF STATE
PO BOX 944228
SACRAMENTO CA 94244-2280
Telephone: (916) 653-3795

or visit the SOS on its website. Their Internet address is:

<http://www.ss.ca.gov>

If a limited partnership is registered in California, but is:

- Not doing business in California; and
- Does not have California source income;

the limited partnership is still required to file. However, if the limited partnership meets all of the above provisions, then it may be eligible for the reduced filing program. The limited partnership's filing requirement will be satisfied by:

1. Completing a Form 565 with all supplemental schedules.
2. Completing and attaching California Schedule K-1 (565) for partners with California addresses.
3. Writing "SB 1106 Filing" in red on top of the front page of Form 565.
4. Entering the total number of members in Question J, Side 2, of Form 565.

Religious and apostolic organizations that are exempt from income tax under R&TC Section 23701k are not required to file Form 565. However, Form 565 should be prepared and attached to Form 199, California Exempt Organization Annual Information Return.

Every LLC classified as a partnership for California tax purposes that is:

- Doing business in California;
- Organized in California; or
- Organized in another state or foreign country but registered with the SOS;

must file Form 568, Limited Liability Company Return of Income.

Certain publicly traded partnerships (PTP) treated as corporations under IRC Section 7704 must file Form 100, California Corporation Franchise or Income Tax Return.

A qualifying syndicate, pool, joint venture or similar organization may elect under IRC Section 761(a) (which California follows) not to be treated as a partnership for state income tax purposes and will not be required to file Form 565 except for the year of election.

If Form 565 is filed for a qualifying syndicate, pool, joint venture or similar group, a copy of the operating agreement and all amendments must be attached to the return, unless a copy has been previously filed with the FTB.

Partnerships, except limited partnerships and LLPs, that do not do business in California and that do not receive income from California sources are not required to file Form 565, even if the partnership consists of one or more California residents. However, resident partners of a nonresident partnership may be required to furnish a copy of federal Form 1065.

F Check the Box Regulations

California has conformed to the federal entity classification regulations (commonly known as "check-the-box" regulations). These regulations allow certain unincorporated entities to choose tax treatment as a partnership, a corporation or an entity disregarded as separate from its owner (Stats. 1997, Ch. 608). The regulations replace the former system of analyzing 4 corporate characteristics to determine the classification for tax purposes.

An "eligible entity" (defined as a business entity that is not a trust, a corporation organized under a federal or state statute, a foreign entity specifically listed as a per se corporation or other special business entity under the IRC, such as a publicly traded partnership, real estate mortgage conduit, financial asset securitization trust or regulated investment company) may make the election. An eligible entity with two or more owners will be a partnership (for federal tax purposes) unless it elects to be taxed as a corporation. An eligible entity with a single owner will be disregarded for tax purposes, unless the entity elects to be taxed as a corporation.

Any elections made for federal purposes under the federal "check-the-box" regulations are considered California elections. No separate elections are allowed. If federal Form 8832, Entity Classification Election, is filed with the federal return, a copy should be attached to the electing entity's California tax return for the year in which the election is effective.

IMPORTANT: There is an exception to the general rule that California classification is the same as federal classification. The exception exists in the case of an eligible business entity, other than one which, within the 60 month period preceding January 1, 1997:

- Was not doing business in California;
 - Did not derive income from sources within California; or
 - Had no members who were residents of California;
- and that was properly classified as an association taxable as a corporation (R&TC Section 23038(b)(1)(c)).

These entities are generally: 1) business trusts that were classified as corporation under California law, but were classified as partnership for federal tax purposes for taxable or income years beginning before January 1, 1997; and 2) previously existing foreign single member limited liability companies that were classified as corporation under California law but claimed to be a partnership for federal tax purposes for taxable or income years beginning before January 1, 1997. These business trusts and previously existing foreign single member limited liability companies will continue to be classified as corporations for California tax purposes and must continue to file Form 100, unless they make an irrevocable election to be classified or disregarded the same as they are for federal tax purposes. See form FTB 3574, Special Election for Business Trusts and Certain Single Member Foreign LLCs, and Title 18, Cal. Code of Reg. Sections 23038(a)-(b).

G Annual Tax

An annual tax of \$800 applies to:

- Limited partnerships, both foreign and domestic, that do business in California;
- Limited partnerships that have a certificate on file with the SOS;
- LLPs that do business in California;
- LLPs registered with the SOS; and
- REMICs that are partnerships and do business in California at any time during the year.

This tax cannot be deducted as an expense by the partnership nor can it be deducted from the partner's distributive share.

H When and Where to File

A partnership must file Form 565 by the 15th day of the 4th month (fiscal year) or April 15, 1999, (calendar year) following the close of its taxable year.

Mail Form 565 **with** payment (limited partnerships, LLPs and REMICs only) to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0601

Make the check or money order payable to the "Franchise Tax Board." Write the partnership's federal employer identification number (FEIN), SOS file number and "1998 Form 565" on the check or money order.

Mail Form 565 **without** payment to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0600

If the partnership cannot file Form 565 by the due date, it is granted an automatic six-month extension without filing a request for extension.

The automatic extension does not extend the time to pay the \$800 annual tax. If the partnership is filing the return under extension, see form FTB 3538, Payment Voucher for Automatic Extension for Limited Partnerships, LLPs and REMICs. The form FTB 3538 and the tax payment should be sent to FTB by the 15th day of the 4th month following the close of the taxable year (fiscal year) or April 15, 1999 (calendar year).

Private Delivery Services

California law conforms to federal law regarding the use of certain designated private delivery services to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. See the instructions for federal Form 1065 for a list of designated delivery services. If a private delivery service is used, address the return to:

FRANCHISE TAX BOARD
SACRAMENTO CA 95827

Caution: Private delivery services cannot deliver items to PO boxes. If using one of these services to mail any item to the FTB, **DO NOT** use an FTB PO box.

I Penalties and Interest

Failure to File a Timely Return or Provide Information

A penalty is assessed against the partnership if it is required to file a partnership return and it:

- Fails to file the return on time, including extensions; or
- Files a return (including Schedule K-1 (565)) that fails to show all the information required.

The amount of the penalty for each month, or part of a month (for a maximum of 5 months) that the failure continues, is \$10 multiplied by the total number of partners in the partnership during any part of the taxable year for which the return is due. Interest will be charged on the penalty from the date of the notice of tax due is sent by FTB until the date the return is filed.

For "small partnerships," as defined in IRC Section 6231, the federal exception to the imposition of penalties for failure to file partnership returns does not apply for California purposes. Get FTB Notice CR-88-692 for more information and see R&TC Section 19172.

Failure to Pay Total Tax by Due Date

For limited partnerships, LLPs and REMICs that must pay the annual \$800 tax with Form 565, a penalty for late payment of tax may be assessed. Any limited partnership, LLP or REMIC that fails to pay the \$800 tax by the original due date is assessed a penalty of 5% of the unpaid tax, plus 0.5% for each month or part of a month (not to exceed 40 months) the tax remains unpaid. This penalty cannot exceed 25% of the unpaid tax. Interest will be due and payable on the late payment.

Note: A penalty may also be charged for a check returned for insufficient funds.

J Accounting Methods

Compute ordinary income by the accounting method regularly used to maintain the partnership's books and records. This method must clearly reflect income.

Partnerships given permission to change their accounting method for federal purposes should see IRC Section 481 for information relating to the adjustments required by changes in accounting method.

Generally, a partnership may not use the cash method of accounting if the partnership has a corporate member, average annual gross receipts of more than \$5 million or if the partnership is a tax shelter. For the exceptions to this rule, see IRC Section 448.

The mark-to-market accounting method is required for securities dealers for taxable years beginning on or after January 1, 1997. The IRC Section 481 adjustment is taken into account ratably over 5 years beginning with the first income year beginning on or after January 1, 1997.

Rounding to Whole-Dollar Amounts

All amounts shown on the return and accompanying schedules should be whole-dollar amounts. To round, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next dollar.

K Accounting Periods

Partnership returns normally must be filed for an accounting period that includes 12 full months. A short period return must be filed if the partnership is created or terminated within the taxable year. In that case, please write "Short Period" in red ink at the top of Form 565, Side 1.

For information on the required taxable year of a partnership see the instructions for federal Form 1065.

L Amended Return

If, after the partnership files its return, it becomes aware of changes it must make to income, deductions, credits, etc., the partnership should file an amended Form 565 and an amended Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc., for each partner. Check the "amended return" box on Form 565, Side 1, Item I and on Schedule K-1 (565), Side 1, Item H. Give a corrected Schedule K-1 (565) labeled "Amended" to each partner. If the partnership filed a group nonresident partner Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, the partnership should file an amended Form 540NR.

If the partnership's federal return is changed for any reason, the federal change may affect the partnership's California return. This would include changes made as a result of an examination of the partnership's return by the IRS. The partnership must file an amended return within 6 months of the final federal adjustments. The partnership should attach a copy of the federal Revenue Agent's Report to the return. The partners may also be required to file amended returns

based on any changes made by the IRS within 6 months from the date of the final federal adjustments.

M Required Information Returns

Every partnership must file information returns if, in the course of its trade or business, it:

- Makes payments of rents, salaries, wages, annuities or other fixed or determinable income during one taxable year totaling \$600 or more to one person;
- Pays to an individual or one payee interest and dividends totaling \$10 or more; or
- Receives cash payments over \$10,000.

Payments of any amount by a broker, dealer or barter exchange agent must also be reported.

Partnerships must report payments made to California residents by providing copies of federal Form 1099. Get FTB Pub. 4227A, A Guide to Information Returns Filed With California, for more information. For nonresidents, see the reporting and withholding requirements on Form 592, Nonresident Withholding Annual Return; Form 592-A, Nonresident Withholding Remittance Statement; and Form 592-B, Nonresident Withholding Tax Statement.

Partnerships must submit a copy of federal Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, within 15 days after the date of the transaction.

Partnerships must report interest paid on municipal bonds that are issued by a state other than California or a municipality other than a California municipality and that are held by California taxpayers. Entities paying interest to California taxpayers on these types of bonds are required to report interest payments aggregating \$10 or more paid after January 1, 1998. Information returns will be due June 1, 1999. Get form FTB 4800, Federally Tax Exempt Non-California Bond Interest and Interest-Dividend Payment, for more information.

Partnerships must use form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to report interest due or to be refunded under the look-back method on long-term contracts.

Any information returns required for federal purposes under IRC Section 6038, Section 6038A and Section 6038B are also required for California purposes. Attach the information returns to the Form 565 when filed. If the information returns are not provided, penalties may be imposed under R&TC Section 19141.2 and Section 19141.5.

Mail all information returns, unless otherwise noted, separately from Form 565. Information returns should be mailed to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0500

N Special Items

California law generally follows federal law in the areas of:

- IRC Section 702(a) items;
- Elections;
- Distributions of unrealized receivables and inventory items;
- Partners' dealings with the partnership;
- Contributions to the partnership;
- Income of foreign nonresident partners subject to withholding-at-source, Forms 592, 592-A, and 592-B;
- Basis and at-risk rules;
- Passive activity limitations;

- Net operating loss deduction by a partner (a partnership is not allowed the deduction for net operating losses for California or federal purposes);
- Publicly traded partnerships;
- Long-term contracts;
- Installment sales;
- Vacation pay;
- Amortization of past service costs;
- Distributions of contributed property by a partnership; and
- Recognition of precontribution gain in certain partnership distributions to contributing partners.

See the instructions for federal Form 1065 for specific information about these provisions.

O Signatures

General Partner

Form 565 is not a valid return unless it is signed by a general partner. If a receiver, trustee in bankruptcy or assignee controls the organization's property or business, that person must sign the return.

Paid Preparer's Information

Generally, anyone who is paid to prepare the partnership return must sign the return and complete the "Paid Preparer's Use Only" area of the return.

The paid preparer must:

- Complete the required preparer information;
- Sign in the space provided for the preparer's signature (signature stamps or labels are not acceptable); and
- Give the partnership a copy of the return in addition to the copy to be filed with the FTB.

A person who prepares the return and does not charge the partnership should not sign the partnership return.

P Group Returns

Nonresident partners of a partnership doing business or deriving income from sources within California may elect under R&TC Section 18535 to file a group nonresident return. Get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR, for more information.

Q Investment Partnerships

Income of nonresident partners, including banks or corporations, derived from "qualifying investment securities" of an "investment partnership" is considered income from sources other than California, except as noted below. Therefore, nonresident partners generally will not be taxed on this income. The partnership should inform its nonresident partners if all or a portion of their distributive share of income is from "qualifying investment securities" of an "investment partnership" and whether it is sourced to California. See Question V instructions for definitions of "qualifying investment securities" and "investment partnership".

Income from a partnership that is an investment partnership is generally considered business income (see Appeal of Estate of Marion Markus, Cal. St. Bd. of Equal., May 6, 1986). Investment partnerships that are doing business within and outside California should apportion California source income using Schedule R, Apportionment and Allocation of Income.

Investment partnerships doing business solely within California should treat all business income of the investment partnership as California source income.

Investment partnerships that have California source income should fill out column (e) of the Schedule K-1 (565) showing each partner's distributive share of California source income.

Generally, partners who are nonresident individuals would not record this income as California source income. However, there are two exceptions to the general rule when a nonresident individual may have California source income from an investment partnership. Nonresident individual partners will be taxed on their distributive shares of income from the "investment partnership" if the income from the qualifying investment securities is interrelated with:

- Any other business activity of the nonresident partner; or
- Any other entity in which the nonresident partner owns an interest that is separate and distinct from the investment activity of the partnership and that is conducted in California.

Nonresident individuals will also be taxed on their distributive share of investment income from an investment partnership if the qualifying securities were purchased with working capital of a trade or business that the nonresident owns an interest in, and that is conducted in California (R&TC Section 17955).

Corporations that are members in an investment partnership are generally not taxed on their distributive share of partnership's income, provided that the income from the partnership is the corporation's only California source income. However, if the corporation:

- Participates in the management of the investment activities of the investment partnership; or
- Has income derived from or attributable to sources within California other than income from the investment partnership;

then the corporation will be taxable on its distributive share of California source income of the partnership.

R Cancelling a Limited Partnership or Limited Liability Partnership

Limited partnerships and limited liability partnerships are required to pay the \$800 annual tax and file Form 565 until the appropriate cancellation papers are filed with the Secretary of State (SOS).

Limited Partnerships

In order to terminate a limited partnership, the following steps must be taken:

1. File a Form LP-4/7, Certificate of Cancellation, with the SOS. The SOS also requires a domestic limited partnership to file a LP-3, Certificate of Dissolution. Please contact the SOS for more details;
2. Pay the \$800 annual tax to FTB; and
3. File a final California partnership return (Form 565) with FTB.

Limited Liability Partnerships

To cancel a limited liability partnership, the following steps must be taken:

1. File a Form LLP-4, Notice of Change of Status, with the SOS. Please contact the SOS for more details;
2. Pay the \$800 annual tax to FTB;
3. File a final California partnership return (Form 565) with FTB; and
4. File form FTB 3555L, Request for Tax Clearance Certificate Limited Liability Company or Limited Liability Partnership, with FTB.

Additional Information

For additional information on this subject, contact the SOS by mail at:

LIMITED PARTNERSHIPS
OFFICE OF THE SECRETARY OF STATE
PO BOX 944225
SACRAMENTO CA 94244-2250
Telephone: (916) 653-3365

or

LIMITED LIABILITY PARTNERSHIPS
OFFICE OF THE SECRETARY OF STATE
PO BOX 944228
SACRAMENTO CA 94244-2280
Telephone: (916) 653-3795

Or on the Internet at:

<http://www.ss.ca.gov>

S Withholding Requirements**Foreign Nonresident Partners**

As described in IRC Section 1446 and modified by R&TC Section 18666, if a partnership has any income or gain from a trade or business within California, and if any portion of that income or gain is allocable under IRC Section 704 to a foreign partner, the partnership is required to withhold tax on the allocable amount.

State and federal differences

California generally conforms to IRC Section 1446 and corresponding federal rulings and procedures. The main differences between California and federal laws in this area are:

- The California withholding rate is 8.84% for corporations and 9.3% for individuals, partnerships and fiduciaries.
- Income attributable to the disposition of California real property is subject to withholding under R&TC Section 18662.

Domestic Nonresident Partners

R&TC Section 18662 requires a partnership to withhold funds for income or franchise taxes when it makes a distribution of income to a domestic nonresident partner. This includes prior year income that should have been, but was not, previously reported as income from California sources on the partner's California income tax return. However, withholding is not required if distributions of income from California sources to the partner are \$1,500 or less during the calendar year or if FTB directs the payor not to withhold.

Domestic nonresident partners include individuals who are nonresidents of California and corporations that are not qualified to do business in California or do not have a permanent place of business in California. Domestic nonresident partners also include nonresident estates and trusts, LLCs and partnerships who do not have a permanent place of business in California. Foreign nonresident partners covered under R&TC Section 18666 are not domestic nonresident partners.

Partnerships with income from within and outside California must make a reasonable estimate of the ratio, to be applied to the distributions, that approximates the ratio of California source income to total income. The ratio for the prior year will generally be accepted as reasonable in determining the California part of the distribution subject to the withholding. Partnerships are required to withhold at a rate of 7% of distributions (including property) of income from California sources made to domestic nonresident partners. For more information, get California Schedule R.

FTB has administrative authority to allow reduced withholding rates, including waivers, when requested in writing. These authorizations may be one-time, annual or for a longer period. Waivers or reduced withholding rates will normally be approved when distributions are made by publicly traded partnerships and on distributions to brokerage firms, tax-exempt organizations and tiered partnerships.

No withholding is required if the distribution is a return of capital or does not represent taxable income for the current or prior years. Although a waiver is not required in this situation, if upon examination FTB determines that withholding was required on a distribution, the partnership may be liable for the withholding and penalties.

Send waiver requests and inquiries to:

NONRESIDENT WITHHOLDING SECTION
FRANCHISE TAX BOARD
PO BOX 651
SACRAMENTO CA 95812-0651
Telephone: (916) 845-4900

The withholding should be reported on and sent with Form 592, Form 592-A and/or Form 592-B. For more information, get FTB Pub. 1017, Nonresident Withholding — Partnership Guidelines.

The taxable income of nonresident partners is the distributive share of partnership income, not the distributed amount of cash.

T Substitute Schedules

If the partnership does not use an official Schedule K-1 (565) prepared by FTB, a software program with an FTB-approved Schedule K-1 (565) or file using magnetic media (CD-ROM, diskette or magnetic tape), it **must** get approval from FTB to use a substitute Schedule K-1 (565). Get FTB Pub. 1098, Guidelines for the Development and Use of Substitute, Scannable and Reproduced Tax Forms, for more information.

Filing Schedule K-1 (565) by CD-ROM, Diskette or Magnetic Media

Partnerships are encouraged to file Schedule K-1 (565) via CD-ROM, cartridge, diskette or magnetic tape. For procedures, formatting specification and record layouts get FTB pub. 1062, Guide for K-1 (565) Filing by CD-ROM, Diskette or Magnetic Media. If you choose to file your Schedule K-1 (565) via magnetic media, all Schedule K-1 (565) must be filed by magnetic media. Do not send duplicate paper Schedules K-1 (565). If you have any questions regarding magnetic media please feel free to contact the Electronic Filing Help Desk at (916) 845-0353.

Multiple Partnerships

Multiple partnerships can be contained on magnetic media. It is not necessary to provide a separate CD-ROM or diskette for each partnership. However, the name, FEIN and number of Schedule K-1 (565) for each partnership on the FTB Transmittal Form 3604, Transmittal of Partnership K-1 Information On Magnetic Media, is required.

K-1 TestWare

FTB provides K-1 TestWare as a tool for preparing Schedule K-1 (565). The program allows the files to be tested prior to submitting them to FTB. This enables partnerships to submit error free files on the first attempt. More information and a demonstration are available in the Electronic Service's section of FTB's website.

Note: Do not file Schedule K-1 (565) on microfiche.

Penalty for Failure to File the Appropriate Schedule K-1 (565)

Beginning in 1997, partnerships are subject to penalties for failure to file the appropriate Schedule K-1 (565).

Note: If you use a computer software product, please read the company's user manual to make sure you have the necessary hardware and printer fonts to produce FTB-approved forms. To ease processing, all printing must be courier, standard OCR-A font or standard print font with a minimum 10 pitch (pica spacing).

Specific Instructions

Form 565

Fill In All Applicable Lines and Schedules

Enter the total amounts on the applicable lines of Schedule K (565). Do not enter these items directly on Form 565, Side 1, or on Schedule A or Schedule D. **Do not** apply the apportionment factor to the items on Schedule K (565). Enter any items specially allocated to the partners on the applicable line of the applicable partner's Schedule K-1 (565).

Name, Address, FEIN and SOS File Number

The partnership may use its legal or trade name on all tax returns and other documents filed. Use the label from the booklet that was mailed to the partnership unless the label is incorrect. If the label information is incorrect or if the partnership does not have a label, print the partnership's legal or trade name, address, FEIN and SOS file number.

Note: Limited partnerships and LLPs need to enter the SOS file number. General partnerships that have registered under RUPA should enter the prefix GP and the 12 digit file number.

Item C – Principal Business Code

Beginning in 1998, California will use the revised 6-digit federal Principal Business Activity (PBA) Code based upon the North American Industrial Classification System (NAICS). Please see the PBA Code chart contained in the federal Form 1065 booklet for the appropriate 6-digit code.

Common trust funds are required to use the PBA code 525920. Investment clubs are required to use PBA code 523910. For further information, see the instructions for federal Form 1065.

Item F – Total Assets at End of Taxable Year

See the instructions for Question N before completing this item.

If the partnership is required to complete this item, enter the total assets at the end of the partnership's taxable year, as determined by the accounting method regularly used in maintaining the partnership's books and records. If there are no assets at the end of the taxable year, enter the total assets as of the beginning of the taxable year.

Question J – Enter the maximum number of partners in the partnership during the taxable year. The number of Schedule K-1 (565) sent via magnetic media or attached to the Form 565 must equal the number of partners entered in Question J. **Do not** use abbreviations or terms such as "Various."

Question N – If the answers to Question 5a through Question 5c on federal Form 1065, Schedule B are all "Yes" answer "Yes" to Question N on Form 565. If Question N is answered "Yes," the partnership is not required to complete Schedules L, M-1 and M-2 or Item F, on Side 1 of Form 565 or Item J on Schedule K-1 (565).

Question S – If the answer is "Yes" a BOE-100-B, Statement of Change in Control and Ownership of Legal Entities, must be filed with the State Board of Equalization (BOE), or substantial penalties may result. Forms and information may be obtained from the BOE at (916) 323-5685.

Answer "Yes" to Question S if:

Under R&TC Section 64(c),

- The percentage of interests including interest in both the capital and profits of this partnership or in any of its subsidiary(ies) owned by one person or one entity cumulatively surpassed 50% during this year;
- The total partnership interests, including capital and profits interests, transferred to one irrevocable trust cumulatively surpassed 50% during this year;
- One or more partners transferred the control of, or the interests in, more than 50% of the total interests in the partnership capital and profits to one person or one entity during this year;
- This partnership's cumulative ownership or control of the capital and profits interests, voting stock or other ownership interests in any other legal entity surpassed 50% this year; or

Under R&TC Section 64(d):

- Cumulatively more than 50% of the total interests including capital and profits interests, in this partnership have been transferred this year in one or more transactions that have occurred since March 1, 1975.

Question

T(1)

through

T(6) –

Check only one "Yes" for this question. The partnership only answers "Yes" next to the line that best describes its business type. For definitions of general partnership, limited partnership, REMIC and LLP, see the General Information D, Definitions, in this booklet and the instructions for federal form 1065.

The term "doing business" means actively engaging in any transaction for the purpose of financial gain or profit (R&TC Section 23101).

Line Item 6 of Question T is for other types of entities not previously mentioned on line 1 through line 5. If your entity is not a general partnership, limited partnership, REMIC or LLP, then check "Yes" for line Item 6 only. In the space provided write in the type of entity.

Question U – R&TC Section 18662 and Section 18666 require taxes to be withheld from certain payments or allocations of income and sent to FTB. If upon examination, FTB determines that tax withholding was required, the partnership may be liable for the tax along with penalties on the amount.

The Form 565's reference to Form 592, Form 592-A and Form 592-B relates to withholding done by the partnership. If you need additional information concerning partnership withholding, please see General Information Section M and Section S in this booklet.

Question V – Investment Partnership.

An "investment partnership" is a partnership that meets the following two criteria:

1. No less than 90% of the cost of partnership's total assets consist of:
 - Qualifying investment securities;
 - Deposits at banks or other financial institutions; and
 - Office equipment and office space reasonably necessary to carry on the activities of an investment partnership.

2. No less than 90% of the partnership's gross income is from interest, dividends and gains from the sale or exchange of qualifying investment securities defined in R&TC Section 17955 and Section 23040.1.

"Qualifying investment securities" include:

- Common and preferred stock, as well as debt securities convertible into common stock;
- Bonds, debentures and other debt securities;
- Foreign and domestic currency deposits or equivalent and securities convertible into foreign securities;
- Mortgage- or asset-backed securities secured by governmental agencies;
- Repurchase agreements and loan participations;
- Foreign currency exchange contracts and forward and futures contracts on foreign currencies;
- Stock and bond index securities and futures contracts, and other similar securities;
- Regulated futures contracts; and
- Options to purchase or sell any of the preceding qualified investment securities, except regulated futures contracts.

"Qualifying investment securities" do not include an interest in a partnership, unless the partnership qualifies as an "investment partnership." See R&TC Section 17955 and Section 23040.1. Also, see General Information Q, Investment Partnerships.

Question X – Federal Form 8271, Investor Reporting of Tax Shelter Registration Number, is required to be attached to any return on which a deduction, loss, credit or any other tax benefit is claimed or reported, or any income reported, from an interest in a registration-required tax shelter. If you were required to file this form with your federal return, attach a copy to your Form 565. **Do not** attach copies of federal Schedule K-1 (1065) you may have received from a registration-required tax shelter.

Income

Line 1
through

Line 8 – California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065, line 1 through line 8.

Note: Use worldwide amounts determined under California law when completing these lines.

As with the federal requirements, include only trade or business activity income on line 1 through line 8. However, for California tax purposes, business income of the partnership is computed using the rules set forth in R&TC Section 25120. Therefore, certain income that may be portfolio income for federal purposes may be business income for California sourcing purposes. Do not include rental activity income or portfolio income on these lines. Rental activity income and portfolio income are separately reported on Schedule K (565) and Schedule K-1 (565). Rental real estate activities are also reported on federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation. Attach a copy of federal Form 8825. Use California numbers and attach a statement reconciling any differences between federal and California amounts.

Line 5 – Net Farm Profit (Loss)

Enter the partnership's net profit (loss) from federal Schedule F (Form 1040), Profit or Loss From Farming. Attach federal Schedule F to Form 565. If the amount includable for California purposes is different from the amount on federal Schedule F, enter the California amount and attach an explanation of the difference.

Line 6 – Net Gain (Loss) from Schedule D-1

Include only ordinary gains or losses from the sale, exchange or involuntary conversion of assets used in a trade or business activity. Ordinary gains or losses from the sale, exchange or involuntary conversion of rental activity assets must be reported separately on Schedule K (565) and Schedule K-1 (565), generally as part of the net income (loss) from the rental activity.

A partnership that is a partner in another partnership must include on Schedule D-1, Sales of Business Property, its share of ordinary gains (losses) from sales, exchanges or involuntary conversions (other than casualties or thefts) of the other partnership's trade or business assets.

Deductions

Line 9
through

Line 21 – California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065, line 9 through line 21.

Note: Use worldwide amounts determined under California law when completing these lines.

As with the federal requirements, include only trade or business activity deductions on line 9 through line 20. Do not include any rental activity expenses or deductions that are allocable to portfolio income on these lines. Rental activity deductions and deductions allocable to portfolio income are separately reported on Schedule K (565) and Schedule K-1 (565).

Federal reporting requirements for organization and syndication expenses and uniform capitalization rules apply for California.

Line 16a – Depreciation and Amortization

Enter on line 16a the total depreciation and amortization claimed on assets used in a trade or business activity. Complete and attach form FTB 3885P, Depreciation and Amortization (included in this booklet), to figure depreciation and amortization. Transfer the total from form FTB 3885P, line 6 to Form 565, Side 1, line 16a, or federal Form 8825 as appropriate (use California amounts).

Do not include any expense deduction for recovery property (IRC Section 179; Enterprise Zones, R&TC Section 17267.2; Los Angeles Revitalization Zone, R&TC Section 17266; Targeted Tax Area, R&TC Section 17267.6 and Local Agency Military Base Recovery Area, R&TC Section 17268) on this line. This expense is not deducted by the partnership. Instead, it is passed through separately to the partners and is reported on line 9 of Schedule K (565) and Schedule K-1 (565).

Line 23 – Tax

Enter the annual \$800 tax required for limited partnerships doing business in California, registered with the SOS or organized in California, LLPs and REMICs.

Line 24 – 1998 nonresident withholding credit

The amount claimed by the partnership cannot exceed the tax due (\$800.00 for limited partnerships, LLPs and REMICs). Any nonresident withholding credit greater than the partnership tax must be allocated to all partners according to their partnership interests. See the instructions for Schedule K (565) and Schedule K-1 (565), Line 13a(1). Attach Form 592-B, Nonresident Withholding Tax Statement, to the front of the partnership return to document the credit claimed. If the amount withheld is greater than the partnership tax, see FTB Publication 1017, Nonresident Withholding — Partnership Guidelines, question 29 for information on required procedures for allocation of the credit to partners.

Line 26 – Total payments

Enter all amounts paid or withheld.

Line 29 – Penalties and interest

Enter any amounts intended to pay penalties and interest such as late payment of the annual tax.

Line 30 – Total amount due

Enter the sum of line 27 and line 29. Make the check or money order payable to the "Franchise Tax Board."

Schedule A – Cost of Goods Sold

Use Schedule A on Side 2 of Form 565 to report the cost of goods sold for the taxable year.

California's reporting requirements are generally the same as the federal reporting requirements. Follow the instructions for federal Form 1065, Schedule A.

Schedule L – Balance Sheets

California's reporting requirements are the same as the federal reporting requirements. The amounts reported on the balance sheet should agree with the books and records of the partnership and should include all amounts whether or not subject to taxation. Attach a statement explaining any differences. Follow the instructions for federal Form 1065, Schedule L.

Note: Domestic partnerships with 10 or fewer partners may not have to complete Schedule L. See the instructions for Question N for the specific requirements to qualify for this exception.

Schedule M-1, Reconciliation of Income (Loss) per Books With Income (Loss) per Return, Schedule M-2, Analysis of Partner's Capital Accounts

Domestic partnerships with 10 or fewer partners may not have to complete Schedule M-1 and Schedule M-2 or Item J (Schedule K-1 (565)). See the instructions for Question N for the specific requirements to qualify for this exception.

If the partnership is required to complete Schedule M-1 and Schedule M-2, the amounts shown should agree with the partnership's books and records and the balance sheet amounts. Attach a statement explaining any differences.

Note: Use worldwide amounts determined under California law when completing Schedule M-1. Also, the amounts on Schedule M-2 should equal the total of the amounts reported in Item J, column (c), of all the partners' Schedules K-1 (565).

Schedule K (565) and Schedule K-1 (565) – Partner's Shares of Income, Deductions, Credits, Etc.

Purpose of Schedules

Schedule K (565) is a summary schedule for the partnership's income, deductions, credits, etc. and the Schedule K-1 (565) shows each partner's separate share. The line items for both of these schedules are the same unless otherwise noted.

One copy of each Schedule K-1 (565) must be sent via magnetic media or attached to the Form 565 when it is filed with the FTB. For alternative methods of filing these Schedule K-1 (565), please see the General Information T, Substitute Schedules, in this booklet.

Be sure to give each partner a copy of their respective Schedule K-1 (565). Also include a copy of the Partner's Instructions for Schedule K-1 (565) or specific instructions for each item reported on the partner's Schedule K-1 (565).

These items should be provided to the partner on or before the due date of the Form 565.

Compliance with Partnership Filing Requirements

To help ensure the accurate and timely processing of your Form 565, please verify the following:

- A Schedule K-1 (565) has been sent via magnetic media or attached for each partner identified on Form 565, Side 2, Question J. Partnerships eligible for the reduced filing program see General Information E.
- The Schedule K-1 (565) contains the partner's correct name, address and identifying number.
- Questions A through I are completed on Side 1 of Schedule K-1 (565).
- The appropriate entity type box (Schedule K-1 (565) Question B) is checked for each partner.
- All Schedule K-1 (565) reconcile to Form 565, Schedule K (565).
- The partner's percentage (Schedule K-1 (565) Question D) is expressed in decimal form (i.e., 33.5432). Do not print fractions or use terms such as "Various."
- Substitute computer-generated Schedule K-1 forms **must** be approved by the FTB.

Note: For the highest rate of accuracy and rapid processing file Schedule K-1 (565) on magnetic media. See General Information T, for more details.

Schedule K (565) Only

In column (b), enter the amounts from federal Schedule K. In column (c), enter the adjustments resulting from differences between California and federal law (not adjustments relating to California source income.) In column (d) on Schedule K (565), enter the worldwide income computed under California law. For partners to comply with the requirements of IRC Section 469, trade or business activity income (loss), rental activity income (loss) and portfolio income must be considered separately by the partners. Rental activity income (loss) and portfolio income are not reported on Form 565, Side 1 so that these amounts are not combined with trade or business activity income (loss). Schedule K (565) is used to report the totals of these (and other) amounts.

Schedule K-1 (565)

The Schedule K-1 (565) details the partner's distributive share of the partnership's income, deductions, credits, etc. The partnership completes the entire Schedule K-1 (565) filling out the partner's and partnership's information (name, address, identifying numbers), Questions A-J and the partner's distributive share of items.

If a husband and wife each had an interest in the partnership, prepare separate Schedule K-1s (565) for each spouse. If a husband and wife held an interest together, prepare a single Schedule K-1 (565) since they are considered to be one partner.

For an individual partner, you must enter the partner's social security number. For all other partners you must enter their FEIN. However, if a partner is an individual retirement arrangement (IRA), enter the identifying number of the custodian of the IRA. Do not enter the social security number of the person for whom the IRA is maintained.

The partnership files one Schedule K-1 (565) for each partner either by magnetic media or by attaching a copy to the partnership return. One copy should also be given to the appropriate partner. The partners should also be provided a copy of either the Partner's Instructions for Schedule K-1 (565) or specific instructions for each item reported.

Determining the Source of the Partnership's Income for a Resident Partner

Resident partner should include the entire distributive share of partnership income in their California income. If the partnership is apportioning, the partner may be entitled to a credit for taxes paid to other states. The partner should be referred to Schedule S, Other State Tax Credit, for more information.

Determining the Source of the Partnership's Income for a Nonresident Partner — Business income

Regardless of the classification of income for federal purposes, the partnership's income from California sources is determined in accordance with California law (Title 18, Cal. Code Reg. Section 17951-4). If the partnership conducts:

- A trade or business wholly within California, the income from that trade or business is California source income;
- A business within and outside California, but the part within the state is so separate and distinct that it can be separately accounted for, then only that separate income within this state is California source income; or
- A single trade or business within and outside California;

then California source business income of that trade or business is determined by apportionment. The partnership should apportion business income using the Uniform Division of Income for Tax Purposes Act (R&TC Section 25120 through Section 25139). Special rules apply if the partnership has income that is not attributable to the trade or business of the partnership (nonbusiness income).

Nonbusiness Income

Nonbusiness income attributable to real or tangible personal property (such as rents, royalties, or gains or losses) located in the California is California source income (see Title 18, Cal. Code Reg. Section 17951-3 and R&TC Section 25124 and Section 25125). Enter this information on the appropriate line of Schedule K-1 (565). If the partnership believes it may have a unitary partner, the information should also be entered in Table 2, Part B, for that partner.

The source of nonbusiness income attributable to intangible property depends upon the partner's state of residence or commercial domicile. Individuals generally source this income to their state of residence and corporations to their commercial domicile.

Note: Because the determination of the source of intangible nonbusiness income must be made at the partner level, this income is not entered on Schedule K-1 (565), column (e). It is entered only in Table 1.

Completing Schedule K-1 (565)

- In **column (b)**, enter the amounts from federal Schedule K-1 (1065).
- In **column (c)**, enter the adjustments resulting from differences between California and federal law for each specific line item.
- In **column (d)**, enter the result of combining column (b) and column (c). This is total income under California law.

Column (e) is used to report California source income and credits. Include the following items in this column:

1. Income from separate businesses, trades or professions conducted wholly within California (see Title 18, Cal. Code Reg. Section 17951-4(a)).
2. Income from a trade or business conducted within and outside California, when the part of business conducted within California can be separately accounted for (see Title 18, Cal. Code Reg. Section 17951-4(b)).

3. Income from a trade or business conducted within and outside California that is apportioned to California. This includes intangible income attributable to the business, trade or profession (Title 18, Cal. Code Reg. Section 17951-4(c) and R&TC Sections 25128 through 25137). Generally, the partnership should apportion business income using a 4-factor formula consisting of property, payroll and a double weighted sales factor. Use a 3-factor formula consisting of payroll, property and a single weighted sales factor if more than 50% of the business receipts of the partnership are from agricultural, extractive, savings and loans, or bank and financial activities. Apportioning partnerships should complete Schedule R and attach it to Form 565.
4. Nonbusiness income from real and tangible property located in California. Enter the partner's share of nonbusiness income from real and tangible property located in California in column (e). If the partnership believes it may have a unitary partner, this income should also be entered in Table 2, Part B.
5. California credits.

Note: Nonbusiness income from intangible property should not be entered in column (e). Enter this income in Table 1. For more information, see Partner's Instructions for Schedule K-1 (565).

Completing Column (d) and Column (e)

Schedule K-1 (565), column (d), includes the partner's distributive share of total partnership income, deductions, gains or losses under California law. Column (e) includes only income, deductions, gains or losses that are apportioned or sourced to California. The computation of these amounts is a matter of law and regulation. The residency of the partner is not a factor in the computation of amounts to be included in column (d) and column (e).

For a partnership that is doing business only in California, column (e) will generally be the same as column (d), except for nonbusiness intangible income (for example, nonbusiness interest, dividends, and gains or losses from sales of securities). For a partnership that is doing business within and outside California, the amounts in column (d) and column (e) will be different, even for California residents.

If the partnership knows the partner is a resident, then the partnership answers "No" to Schedule K-1 (565), Question 1 and completes column (d) only. Otherwise the partnership should complete column (e) for all other partners.

Completing Table 1

Partnerships only complete Table 1 if they have nonbusiness intangible income. If the partnership has nonbusiness intangible income, but knows that the partner is a resident individual, then the partnership does not need to complete Table 1 for the partner.

Completing Table 2

If the partnership knows that the partner is not unitary with its trade or business or any other trade or business, then the partnership does not need to complete Table 2 for that partner.

Special Rules for Partners and Partnerships in a Single Unitary Business

Special rules apply if the partnership and a partner are engaged in a single unitary business. In that case, a unitary partner will not use the income information shown in column (e). Instead, the partner's distributive share of business income is combined with the partner's own business income. The combined business income is apportioned using an apportionment formula that consists of an aggregate of the partner's share of the apportionment

factors from the partnership and the partner's apportionment factors (see Title 18, Cal. Code Reg. Section 25127-1(f)). The determination of whether a 3- or 4-factor apportionment formula applies to the combined income will be made at the partner level. The partner's distributive share of business income and property, payroll and sales factors are entered in Table 2.

If the partnership knows that all of the partners are unitary with the partnership, the partnership need not complete column (e) for any of the Schedule K-1 (565) or attach a Schedule R. For further information, see Partner's Instructions for Schedule K-1 (565).

Special Reporting Requirements for Passive Activities

If items of income (loss), deduction or credit from more than one activity are reported on Schedule K-1 (565), the partnership must attach a statement to Schedule K-1 (565) for each activity that is a passive activity to the partner. Rental activities are passive activities to all partners; trade or business activities are passive activities to limited partners and to general partners who do not materially participate in the activity. The statement must include all the information explained in the instructions for federal Schedule K-1 (1065).

Questions A and E (Schedule K-1 (565))

See the federal instructions for Questions A and F on Schedule K-1 (1065).

Question B (Schedule K-1 (565))

Check the box for the partner's entity type. An exempt organization should check box 10 regardless of its legal form.

Question D (Schedule K-1 (565))

Percentages must be 5 to 7 characters in length and have a decimal point before the 4 final characters. For example, 50% is represented as 50.0000, 5% as 5.0000, 100% as 100.0000.

Question C and I (Schedule K-1 (565))

Check the boxes at Questions C and I for the partner's California residency status.

Specific Line Instructions

The California Schedule K (565) generally follows the federal Schedule K (1065). Where California and federal laws are the same, the instructions for California Schedule K (565) refer to the instructions for federal Schedule K (1065).

Income

Line 1
through

Line 7 – See the instructions for federal Schedule K (1065) and Schedule K-1 (1065), Income (Loss), line 1 through line 7.
Note: Schedule K (565) must include all income and losses from the partnership activities as determined under California laws and regulations. Any differences reported between the federal and California amounts should be related to differences in the tax laws. Do not apply the apportionment formula to the income or losses on Schedule K (565).

Line 6 – Enter on Schedule K, line 6, the amount shown on Schedule D-1, Sales of Business Property, line 7. Do not include specially allocated ordinary gains and losses or net gains or losses from involuntary conversions due to casualties or thefts. Instead, report them on line 7.

If the partnership has more than one activity and the amount on line 6 is a passive activity amount to the partner, attach a statement to Schedule K-1 (565) that identifies to which activity the IRC Section 1231 gain (loss) relates.

Deductions

Line 8 – Charitable Contributions

Enter the total amount of charitable contributions made by the partnership during its taxable year on Schedule K (565) and each partner's distributive share on Schedule K-1 (565). Attach an itemized list to both schedules showing the amount subject to the 50%, 30% and 20% limitations.

Partners are allowed a deduction for contributions to qualified organizations as provided in IRC Section 170.

California conforms to the IRC Section 170 (f)(8) substantiation requirement for charitable contributions.

Line 9
through

Line 11 – See the instructions for federal Schedule K (1065) and Schedule K-1 (1065), Deductions, line 9 through line 11. Section 179 expense deductions are subject to different rules for California. See instructions for form FTB 3885P, Depreciation and Amortization.

Investment Interest

Line 12a
through

Line 12b(2) – These lines must be completed whether or not a partner is subject to the investment interest rules.

Line 12a – Interest Expense on Investment Debts: Enter on this line interest paid or accrued to purchase or carry property held for investment. Property held for investment includes property that produces portfolio income (interest, dividends, annuities, royalties, etc.). Therefore, interest expense allocable to portfolio income should be reported on line 12a of Schedule K (565) and Schedule K-1 (565) (rather than line 10 of Schedule K (565) and Schedule K-1 (565)).

Property held for investment includes a partner's interest in a trade or business activity that is not a passive activity to the partnership and in which the partner does not materially participate. An example would be a partner's working interest in an oil and gas property (i.e., the partner's interest is not limited) if the partner does not materially participate in the oil and gas activity. Investment interest does not include interest expense allocable to a passive activity. For more information, get form FTB 3526, Investment Interest Expense Deduction.

Line 12b(1) and Line 12b(2) – Investment Interest

Income and Expenses: Enter on line 12b(1) only the investment income included on line 4a, line 4b, line 4c and line 4e of Schedule K (565) and Schedule K-1 (565). Enter on line 12b(2) only investment expense included on line 10 of Schedule K (565) and Schedule K-1 (565).

If items of investment income or expense are included in the amounts that are required to be passed through separately to the partner on Schedule K-1 (565) (items other than the amounts included on line 4 and line 10 of Schedule K-1 (565)), give each partner a schedule identifying these amounts.

Investment income includes gross income from property held for investment, gain attributable to the disposition of property held for investment and other amounts that are gross portfolio income. Generally, investment income and investment expense do not include any income or expense from a passive activity.

Property subject to a net lease is not treated as investment property because it is subject to the passive loss rules. Do not reduce investment income by losses from passive activities.

Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income. Get the instructions for form FTB 3526 for more information.

Credits

Line 13a(1) – Withholding on Payments to the Partnership Allocated to All Partners

If taxes were withheld from payments to the partnership by another entity, this withholding is allocated to all partners according to their partnership interests.

Line 13a(2) – Partnership Withholding on Nonresident Partners (Schedule K-1 (565) only)

If taxes were withheld-at-source on domestic or foreign nonresident partners, the amount of this withholding is entered on the partner's Schedule K-1 (565), line 13a(2). This is not a distributable item.

Line 13a(3) – Total Withholding (Schedule K-1 (565) only)

The amounts on a partner's Schedule K-1 (565), line 13a(1) and line 13a(2) are added together to get the total amount of withholding credit for that partner for the partnership year. If taxes were withheld by the partnership or if there is a pass-through withholding credit from another entity, the partnership must provide each affected partner (including California residents) a completed Form 592-B. Partners must attach Form 592-B to the front of their California tax return to claim amounts withheld. Schedule K-1 (565) may **not** be used to claim this withholding credit.

Line 13b through Line 13d –

These lines relate to rental activities. Use line 14 to report credits related to trade or business activities.

Note: California line numbers are different from federal line numbers in this section.

Line 13b – Low-Income Housing Credit

IRC Section 42 provides a credit that may be claimed by owners of residential rental projects providing low-income housing. Generally, the credit is effective for buildings placed in service after 1986. Get form FTB 3521, Low-Income Housing Credit, for more information.

Line 13c – Credits Related to Rental Real Estate Activities other than Line 13b

Report any information that the partners need to figure credits related to a rental real estate activity, other than the low-income housing credit. Attach to each partner's Schedule K-1 (565) a schedule showing the amount to be reported and the applicable form on which the amount should be reported.

Line 13d – Credits Related to Other Rental Activities

Use this line to report information that the partners need to figure credits related to a rental activity. Attach to each partner's Schedule K-1 (565) a schedule showing the amount to be reported and the applicable form on which the amount should be reported.

Line 14 – Other Credits

Enter on an attached schedule each partner's allocable share of any credit or credit information that is related to a trade or business activity.

Credits that can be reported on line 14 are:

- Community Development Financial Institution Deposits Credit. Use credit code 209.
- Disabled Access Credit for Eligible Small Businesses — get form FTB 3548.
- Donated Agricultural Products Transportation Credit — get form FTB 3547.

- Employer Child Care Program/Contribution Credit — get form FTB 3501.
- Enhanced Oil Recovery Credit — get form FTB 3546.
- Enterprise Zone (EZ) Hiring & Sales or Use Tax Credit — get form FTB 3805Z.
- Farmworker Housing Credit — Construction. Use credit code 207.
- Farmworker Housing Credit — Loan. Use credit code 208.
- Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax Credit — get form FTB 3807.
- Manufacturers' Investment Credit — get form FTB 3535.
- Prison Inmate Labor Credit — get form FTB 3507.
- Research Credit — get form FTB 3523.
- Rice Straw Credit. Use credit code 206.
- Salmon and Steelhead Trout Habitat Restoration Credit. Use credit code 200.
- Manufacturing Enhancement Area (MEA) Hiring Credit — get form FTB 3808.
- Targeted Tax Area (TTA) Hiring and Sales or Use Tax credit — get form FTB 3809.

Line 14 may also include the distributive share of net income taxes paid to other states by the partnership. Subject to limitations of R&TC Section 18001 and Section 18006, partners may claim a credit against their individual income tax for net income taxes paid by the partnership to another state. The amount of tax paid must be supported by a schedule of the credits and the states paid and evidence of payment of the tax. Refer the partners to Schedule S for more information.

Adjustments and Tax Preference Items

Line 15a through Line 15e –

Enter each partner's distributive share of income and deductions that are adjustments and tax preference items. Get Schedule P (540), Alternative Minimum Tax and Credit Limitations — Residents, Schedule P (540NR), Alternative Minimum Tax and Credit Limitations — Nonresidents or Part-Year Residents, Schedule P (541), Alternative Minimum Tax and Credit Limitations — Fiduciaries, or Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations, to determine amounts and for other information.

For additional information, see instructions for federal Schedule K (1065), Adjustments and Tax Preference Items, line 16a through line 16e. For differences between federal and California law for alternative minimum tax (AMT), see R&TC Section 17062.

Other

Line 16 through Line 21 –

See the instructions for federal Schedule K-1 (1065), "Other," line 18 through line 24.

Line 22 – (Schedule K-1 (565) only)

The partnership may need to report supplemental information that is not specifically requested on the Schedule K-1 (565) to each partner.

Partners may need to obtain the amount of their proportionate interest of aggregate gross receipts, less returns and allowances, from the partnership. Alternative minimum taxable income does not include income, positive and negative adjustments and preference items attributed to any trade or business of a qualified taxpayer who has aggregate gross receipts, less returns and allowances, during the taxable year of less than \$1,000,000 from all trades or businesses in which the taxpayer is an owner or has an ownership interest. The partnership should provide

the partner's proportionate interest of aggregate gross receipts on Schedule K-1 (565), line 22.

For purposes of R&TC Section 17062(b)(4), "aggregate gross receipts, less returns and allowances" mean the sum of:

- The gross receipts of the trades or businesses with the taxpayer owns;
- The proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns; and
- The proportionate interest of the pass-through entities gross receipts in which the taxpayer holds and interest.

"Aggregate gross receipts" means the sum of gross receipts from the production of business income (within the meaning of subdivisions (a) and (c) of R&TC Section 25120) and the gross receipts from the production of nonbusiness income as defined in subdivision (d) of R&TC Section 25120. For purposes of this section "pass-through entity" means a partnership (as defined by R&TC Section 17008), an S corporation, a regulated investment company (RIC), a real estate investment trust (REIT) and a REMIC.

See R&TC Section 17062 for more information.

Also show on line 22 a statement showing each of the following:

1. Each partner's distributive share of business income apportioned to an EZ, LARZ, LAMBRA, MEA or TTA; and
2. Each partner's distributive share of business capital gain or loss included in 1 above.

should also be included on the appropriate line in column (e).

Nonbusiness income is all income other than business income.

Part C. Enter the partner's distributive share of the partnership's payroll, property and sales factors in Part C.

Analysis — (Schedule K (565) only)

Line 23a through

Line 23b(2) — For the instructions for line 23a through line 23b(2) of Schedule K (565), see the instructions for federal Schedule K (1065), Analysis of Net Income (Loss).

Tables — (Schedule K-1 (565) only)

Table 1 — Enter the partner's share of nonbusiness income from intangibles. Because the source of this income must be determined at the partner level, do not enter income in this category in column (e). If the income (loss) for an income item is a mixture of income (loss) in different subclasses (for example, short and long term capital gain), attach a supplemental schedule providing a breakdown of income in each subclass.

Note: Enter nonbusiness income from intangibles in Table 1 net of related expenses.

Table 2 — The final determination of unity is made at the partner level. If the partnership and the partner are unitary, or if the partnership is uncertain as to whether it is unitary with the partner, it should furnish the information in Table 2.

Part A. Enter the partner's distributive share of the partnership's business income in Part A. The partner will then add that income to its own business income and apportion the combined business income.

Business income is defined by Title 18, Cal. Code Regs. Section 25120(a) as income arising in the regular course of the corporation's trade or business. Business income includes income from tangible and intangible property if the acquisition, management and disposition of the property constitutes integral parts of the taxpayer's regular trade or business.

Part B. Enter the partner's share of nonbusiness income from real and tangible property that is located in California. Because this income has a California source, this income

1998 Partnership Return of Income

565

For calendar year 1998 or fiscal year beginning month _____ day _____ year 1998, and ending month _____ day _____ year 19 _____

A Principal business activity name (same as federal)	Partnership name (place label within block or type or print) <input type="checkbox"/> Check box if name changed DBA Number and street (or PO Box number if mail is not delivered to street address) City or town _____ State _____ ZIP Code _____	D FEIN _____ E Date business started _____ F Enter total assets at end of year. See instructions. \$ _____ I Check applicable box (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Amended return
B Principal product or service (same as federal)		
C Principal business code (same as federal)		
G Check accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (attach explanation)		H Secretary of State file number _____

Caution: Include **only** trade or business income and expenses on line 1a through line 21 below. See the instructions for more information.

Income	1 a Gross receipts or sales \$_____ 1b Less returns and allowances \$_____ Balance	1c				
	2 Cost of goods sold (Schedule A, line 8)	2				
	3 Gross profit. Subtract line 2 from line 1c.	3				
	4 Ordinary income (loss) from other partnerships and fiduciaries. Attach schedule.	4				
	5 Net farm profit (loss). Attach federal Schedule F (Form 1040).	5				
	6 Net gain (loss) from Schedule D-1, Part II, line 18	6				
	7 Other income (loss). Attach schedule	7				
	8 TOTAL income (loss). Combine line 3 through line 7.	8				
Deductions	9 Salaries and wages (other than to partners).	9				
	10 Guaranteed payments to partners	10				
	11 Repairs	11				
	12 Bad debts.	12				
	13 Rent.	13				
	14 Taxes	14				
	15 Deductible interest expense not claimed elsewhere on return	15				
	16 a Depreciation and amortization. Attach form FTB 3885P \$_____					
	b Less depreciation reported on Schedule A and elsewhere on return \$_____ c Balance	16c				
	17 Depletion. Do not deduct oil and gas depletion	17				
	18 Retirement plans, etc.	18				
	19 Employee benefit programs	19				
	20 Other deductions. Attach schedule	20				
21 TOTAL deductions. Add line 9 through line 20	21					
22 Ordinary income (loss) from trade or business activities. Subtract line 21 from line 8	22					
23 Tax — \$800.00 (limited partnerships, LLPs and REMICs only). See instructions.	23					
Pay-ments	24 1998 nonresident withholding credit (\$800 maximum). See instructions.	24				
	25 Amount paid with extension of time to file return	25				
	26 Total payments. Add line 24 and line 25	26				
Amount Due or Refund	27 Tax due. If line 23 is more than line 26, subtract line 26 from line 23	27				
	28 Refund. If line 26 is more than line 23, subtract line 23 from line 26	28				
	29 Penalties and interest	29				
	30 Total amount due. Add line 27 and line 29.	30				
	Make check payable to Franchise Tax Board					
Please Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.					
	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:50%;">Signature of general partner</td> <td style="width:20%;">Date</td> <td style="width:30%;">Telephone () _____</td> </tr> </table>			Signature of general partner	Date	Telephone () _____
Signature of general partner	Date	Telephone () _____				
Paid Preparer's Use Only	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:50%;">Preparer's signature</td> <td style="width:20%;">Date</td> <td style="width:30%;">Check if self-employed <input type="checkbox"/></td> </tr> </table>			Preparer's signature	Date	Check if self-employed <input type="checkbox"/>
	Preparer's signature	Date	Check if self-employed <input type="checkbox"/>			
<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:50%;">Firm's name (or yours, if self-employed) and address</td> <td style="width:20%;">Preparer's SSN/FEIN</td> <td style="width:30%;">Telephone () _____</td> </tr> </table>			Firm's name (or yours, if self-employed) and address	Preparer's SSN/FEIN	Telephone () _____	
Firm's name (or yours, if self-employed) and address	Preparer's SSN/FEIN	Telephone () _____				

Schedule A Cost of Goods Sold

1 Inventory at beginning of year	1		
2 Purchases less cost of items withdrawn for personal use	2		
3 Cost of labor.	3		
4 Additional IRC Section 263A costs. Attach schedule.	4		
5 Other costs. Attach schedule.	5		
6 Total. Add line 1 through line 5	6		
7 Inventory at end of year	7		
8 Cost of goods sold. Subtract line 7 from line 6. Enter here and on Side 1, line 2	8		

9 a Check all methods used for valuing closing inventory:

☒ (1) ☐ Cost
 ☐ (2) Lower of cost or market as described in Treas. Reg. Section 1.471-4
 ☐ (3) Writedown of "subnormal" goods as described in Treas. Reg. Section 1.471-2(c)
 ☐ (4) Other. Specify method used and attach explanation _____

b Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970. . . ☐

c Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the partnership? ☐ Yes ☐ No

d Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost or valuations between opening and closing inventory? If "yes," attach explanation ☐ Yes ☐ No

<p>J Enter the maximum number of partners in this partnership at any time during the year. (Be sure to attach a K-1 for each partner.) <input checked="" type="checkbox"/></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 5%;"></td> <td style="width: 15%; text-align: center;">Yes</td> <td style="width: 15%; text-align: center;">No</td> </tr> </table> <p>K Is any partner of the partnership related by blood or marriage to any other member? <input checked="" type="checkbox"/></p> <p>L Is any partner of the partnership a trust for the benefit of any person related by blood or marriage to any other member? <input checked="" type="checkbox"/></p> <p>M Are any partners in this partnership also partnerships or LLCs? <input checked="" type="checkbox"/></p> <p>N Does the partnership meet all the requirements shown in the instructions for Question N? <input checked="" type="checkbox"/></p> <p>O Is this partnership a partner or a member in another partnership or LLC? If yes, attach a statement with the names and FEINs of each entity. <input checked="" type="checkbox"/></p> <p>P Was there a distribution of property or a transfer (e.g., by sale or death) of a partnership interest during the taxable year? If "yes," see the federal instructions concerning an election to adjust the basis of the partnership's assets under IRC Section 754. <input checked="" type="checkbox"/></p> <p>Q Is this partnership a publicly traded partnership as defined in IRC Section 469(k)(2)? <input checked="" type="checkbox"/></p> <p>R Is this partnership under audit by the IRS or has it been audited in a prior year? <input checked="" type="checkbox"/></p> <p>S Did this partnership or its subsidiaries have a transfer or acquisition of more than 50% in control or ownership? (See Instructions-Penalties May Apply) <input checked="" type="checkbox"/></p>		Yes	No		<p>T Type of entity. Check only one "Yes" box for question T</p> <p>(1) General partnership <input checked="" type="checkbox"/></p> <p>(2) Limited partnership that:</p> <ul style="list-style-type: none"> • is doing business in California; • is registered with SOS; or • is organized in California <input checked="" type="checkbox"/> <p>(3) Limited partnership that is filing to report California source income, but:</p> <ul style="list-style-type: none"> • is not doing business in California; • is not registered with SOS; or • is not organized in California <input checked="" type="checkbox"/> <p>(4) REMIC <input checked="" type="checkbox"/></p> <p>(5) LLP <input checked="" type="checkbox"/></p> <p>(6) Other (See Instructions) _____ <input checked="" type="checkbox"/></p> <p>U (1) Does the partnership have any foreign nonresident partners? <input checked="" type="checkbox"/></p> <p>(2) Does the partnership have any nonresident partners? <input checked="" type="checkbox"/></p> <p>(3) Were Form 592, Form 592-A and Form 592-B filed for these partners? <input checked="" type="checkbox"/></p> <p>V Is this an investment partnership? (See instructions.) <input checked="" type="checkbox"/></p> <p>W Is the partnership apportioning income to California using Schedule R? <input checked="" type="checkbox"/></p> <p>X Is the partnership required to complete federal Form 8271? If "Yes," see instructions. <input checked="" type="checkbox"/></p>	Yes	No
	Yes	No					

Schedule K Partners' Shares of Income, Deductions, Credits, Etc.

(a) Distributive share items		(b) Amounts from federal K (1065)	(c) California Adjustments	(d) Total amounts using California law		
Income (Loss)	1 Ordinary income (loss) from trade or business activities (Side 1, line 22) . . .	1 ●				
	2 Net income (loss) from rental real estate activities. Attach federal Form 8825 . . .	2				
	3 a Gross income from other rental activities	3a				
	b Less expenses. Attach schedule	3b				
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c		●		
	4 Portfolio income (loss). See instructions:					
	a Interest income	4a		●		
	b Dividend income	4b		●		
	c Royalty income	4c		●		
	d Net capital gain (loss) (Schedule D (565))	4d				
e Other portfolio income (loss). Attach schedule	4e		●			
5 Guaranteed payments to partners	5		●			
6 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft). Attach Schedule D-1	6		●			
7 Other income (loss). Attach schedule	7					
Deduct- tions	8 Charitable contributions. See instructions. Attach schedule	8				
	9 Expense deduction for recovery property (R&TC Sections 17266, 17267.2, 17267.6 and 17268 and IRC Section 179). Attach schedule or worksheet for 179 deductions	9				
	10 Deductions related to portfolio income	10				
	11 Other deductions. Attach schedule	11				
Invest- ment Interest	12 a Interest expense on investment debts	12a		●		
	b (1) Investment income included on lines 4a, 4b, 4c and and line 4e above	12b(1)				
	(2) Investment expenses included on line 10 above	12b(2)				
Credits	13 a (1) Withholding on partnership allocated to all partners	13a(1)				
	b Low-income housing credit	13b				
	c Credit(s) other than the credit shown on line 13b related to rental real estate activities. Attach schedule	13c				
	d Credit(s) related to other rental activities. See instructions. Attach schedule	13d				
	14 Other credits. See instructions. Attach schedule	14		●		
Adjust- ments and Tax Prefer- ence Items	15 a Depreciation adjustment on property placed in service after 1986 . . .	15a				
	b Adjusted gain or loss	15b				
	c Depletion (other than oil and gas)	15c				
	d (1) Gross income from oil, gas and geothermal properties . . .	15d(1)				
	(2) Deductions allocable to oil, gas and geothermal properties . .	15d(2)				
	e Other adjustments and tax preference items. Attach schedule . .	15e				
Other	16 a Total expenditures to which IRC Section 59(e) election may apply. Attach schedule	16a				
	b Type of expenditures	16b				
	17 Tax-exempt interest income	17				
	18 Other tax-exempt income	18		●		
	19 Nondeductible expenses	19				
	20 Distributions of money (cash and marketable securities)	20				
	21 Distribution of property other than money	21				
	22 Other items and amounts reported separately to partners. See instructions. Attach schedule	22				
Analysis	23 a Total distributive income/payment items. Combine line 1 through line 7 above. From the result, subtract the sum of line 8 through line 12a and line 16a . .	23		●		
	b Analysis by type of partner:					
	(a) Corporate	(b) Individual		(c) Partnership	(d) Exempt Organization	(e) Nominee/ Other
		i. Active	ii. Passive			
(1) General partners						
(2) Limited partners						

Schedule L Balance Sheets. See the instructions for Question N before completing Schedules L, M-1 and M-2.

Assets	Beginning of taxable year		End of taxable year	
	(a)	(b)	(c)	(d)
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	()		()	
3 Inventories				●
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets. Attach schedule.				●
7 Mortgage and real estate loans				
8 Other investments. Attach schedule				●
9 a Buildings and other depreciable assets				
b Less accumulated depreciation	()		()	●
10 a Depletable assets				
b Less accumulated depletion	()		()	
11 Land (net of any amortization)				●
12 a Intangible assets (amortizable only)				
b Less accumulated amortization.	()		()	
13 Other assets. Attach schedule				●
14 Total assets				
Liabilities and Capital				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities. Attach schedule				
18 All nonrecourse loans				●
19 Mortgages, notes, bonds payable in 1 year or more.				●
20 Other liabilities. Attach schedule				●
21 Partners' capital accounts				●
22 Total liabilities and capital				

Schedule M-1 Reconciliation of Income per Books With Income per Return. Use total amount under California law.

1 Net income (loss) per books		6 Income recorded on books this year not included on Schedule K, line 1 through line 7. Itemize:	
2 Income included on Schedule K, line 1 through line 7, not recorded on books this year. Itemize ●		a Tax-exempt interest \$	●
3 Guaranteed payments (other than health insurance)		7 Deductions included on Schedule K, line 1 through line 12a and line 16a, not charged against book income this year. Itemize:	
4 Expenses recorded on books this year not included on Schedule K, line 1 through line 12a and line 16a. Itemize:		a Depreciation \$	●
a Depreciation \$		8 Total of line 6 and line 7	
b Travel and entertainment \$		9 Income (loss) (Schedule K, line 23a). Subtract line 8 from line 5	
c Limited partnership tax \$ ●			
5 Total of line 1 through line 4			

Schedule M-2 Analysis of Partners' Capital Accounts

1 Balance at beginning of year		6 Distributions: a Cash ●	
2 Capital contributed during year ●		b Property ●	
3 Net income (loss) per books		7 Other decreases. Itemize	
4 Other increases. Itemize ●			●
		8 Total of line 6 and line 7	
5 Total of line 1 through line 4		9 Balance at end of year. Subtract line 8 from line 5	

1998 Partnership Return of Income

565

For calendar year 1998 or fiscal year beginning month _____ day _____ year 1998, and ending month _____ day _____ year 19 _____

A Principal business activity name (same as federal)	Partnership name (place label within block or type or print) Check box if name changed <input type="checkbox"/>		D FEIN
	DBA		E Date business started
B Principal product or service (same as federal)	Number and street (or PO Box number if mail is not delivered to street address)		F Enter total assets at end of year. See instructions.
C Principal business code (same as federal)	City or town	State ZIP Code	G \$
G Check accounting method:	H Secretary of State file number		I Check applicable box
<input type="radio"/> (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (attach explanation)			<input type="checkbox"/> (1) Initial return <input type="checkbox"/> (2) Final return <input type="checkbox"/> (3) Amended return

Caution: Include **only** trade or business income and expenses on line 1a through line 21 below. See the instructions for more information.

Income	1 a Gross receipts or sales \$_____ 1b Less returns and allowances \$_____ Balance	1c	
	2 Cost of goods sold (Schedule A, line 8)	2	
	3 Gross profit. Subtract line 2 from line 1c.	3	
	4 Ordinary income (loss) from other partnerships and fiduciaries. Attach schedule.	4	
	5 Net farm profit (loss). Attach federal Schedule F (Form 1040).	5	
	6 Net gain (loss) from Schedule D-1, Part II, line 18	6	
	7 Other income (loss). Attach schedule	7	
	8 TOTAL income (loss). Combine line 3 through line 7.	8	
Deductions	9 Salaries and wages (other than to partners).	9	
	10 Guaranteed payments to partners	10	
	11 Repairs	11	
	12 Bad debts.	12	
	13 Rent.	13	
	14 Taxes	14	
	15 Deductible interest expense not claimed elsewhere on return	15	
	16 a Depreciation and amortization. Attach form FTB 3885P \$_____ c Balance	16c	
	17 Depletion. Do not deduct oil and gas depletion	17	
	18 Retirement plans, etc.	18	
	19 Employee benefit programs	19	
	20 Other deductions. Attach schedule	20	
	21 TOTAL deductions. Add line 9 through line 20	21	
22 Ordinary income (loss) from trade or business activities. Subtract line 21 from line 8	22		
23 Tax — \$800.00 (limited partnerships, LLPs and REMICs only). See instructions.	23		
Pay-ments	24 1998 nonresident withholding credit (\$800 maximum). See instructions.	24	
	25 Amount paid with extension of time to file return	25	
Amount Due or Refund	26 Total payments. Add line 24 and line 25	26	
	27 Tax due. If line 23 is more than line 26, subtract line 26 from line 23	27	
	28 Refund. If line 26 is more than line 23, subtract line 23 from line 26	28	
	29 Penalties and interest	29	
	30 Total amount due. Add line 27 and line 29. Make check payable to Franchise Tax Board	30	
Please Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		
	Signature of general partner	Date	Telephone ()
Paid Preparer's Use Only	Preparer's signature	Date	Preparer's SSN/FEIN
	Firm's name (or yours, if self-employed) and address	Check if self-employed <input type="checkbox"/>	FEIN
			Telephone ()

Schedule A Cost of Goods Sold

1 Inventory at beginning of year	1		
2 Purchases less cost of items withdrawn for personal use	2		
3 Cost of labor.	3		
4 Additional IRC Section 263A costs. Attach schedule.	4		
5 Other costs. Attach schedule.	5		
6 Total. Add line 1 through line 5	6		
7 Inventory at end of year	7		
8 Cost of goods sold. Subtract line 7 from line 6. Enter here and on Side 1, line 2	8		

9 a Check all methods used for valuing closing inventory:

☒ (1) ☐ Cost
 ☐ (2) Lower of cost or market as described in Treas. Reg. Section 1.471-4
 ☐ (3) Writedown of "subnormal" goods as described in Treas. Reg. Section 1.471-2(c)
 ☐ (4) Other. Specify method used and attach explanation _____

b Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970. . . ☐

c Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the partnership? ☐ Yes ☐ No

d Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost or valuations between opening and closing inventory? If "yes," attach explanation ☐ Yes ☐ No

<p>J Enter the maximum number of partners in this partnership at any time during the year. (Be sure to attach a K-1 for each partner.) <input checked="" type="checkbox"/></p> <p>K Is any partner of the partnership related by blood or marriage to any other member? <input checked="" type="checkbox"/></p> <p>L Is any partner of the partnership a trust for the benefit of any person related by blood or marriage to any other member? <input checked="" type="checkbox"/></p> <p>M Are any partners in this partnership also partnerships or LLCs? <input type="checkbox"/></p> <p>N Does the partnership meet all the requirements shown in the instructions for Question N? <input type="checkbox"/></p> <p>O Is this partnership a partner or a member in another partnership or LLC? If yes, attach a statement with the names and FEINs of each entity. <input type="checkbox"/></p> <p>P Was there a distribution of property or a transfer (e.g., by sale or death) of a partnership interest during the taxable year? If "yes," see the federal instructions concerning an election to adjust the basis of the partnership's assets under IRC Section 754. <input checked="" type="checkbox"/></p> <p>Q Is this partnership a publicly traded partnership as defined in IRC Section 469(k)(2)? <input type="checkbox"/></p> <p>R Is this partnership under audit by the IRS or has it been audited in a prior year? <input checked="" type="checkbox"/></p> <p>S Did this partnership or its subsidiaries have a transfer or acquisition of more than 50% in control or ownership? (See Instructions-Penalties May Apply) <input checked="" type="checkbox"/></p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%;"></td> </tr> <tr> <td style="text-align: center;">Yes</td> <td style="text-align: center;">No</td> </tr> </table>			Yes	No	<p>T Type of entity. Check only one "Yes" box for question T</p> <p>(1) General partnership <input checked="" type="checkbox"/></p> <p>(2) Limited partnership that:</p> <ul style="list-style-type: none"> • is doing business in California; • is registered with SOS; or • is organized in California <input checked="" type="checkbox"/> <p>(3) Limited partnership that is filing to report California source income, but:</p> <ul style="list-style-type: none"> • is not doing business in California; • is not registered with SOS; or • is not organized in California <input checked="" type="checkbox"/> <p>(4) REMIC <input checked="" type="checkbox"/></p> <p>(5) LLP <input checked="" type="checkbox"/></p> <p>(6) Other (See Instructions) _____ <input checked="" type="checkbox"/></p> <p>U (1) Does the partnership have any foreign nonresident partners? <input checked="" type="checkbox"/></p> <p>(2) Does the partnership have any nonresident partners? <input checked="" type="checkbox"/></p> <p>(3) Were Form 592, Form 592-A and Form 592-B filed for these partners? <input checked="" type="checkbox"/></p> <p>V Is this an investment partnership? (See instructions.) <input checked="" type="checkbox"/></p> <p>W Is the partnership apportioning income to California using Schedule R? <input checked="" type="checkbox"/></p> <p>X Is the partnership required to complete federal Form 8271? If "Yes," see instructions. <input type="checkbox"/></p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%;"></td> </tr> <tr> <td style="text-align: center;">Yes</td> <td style="text-align: center;">No</td> </tr> </table>			Yes	No
Yes	No										
Yes	No										

Schedule K Partners' Shares of Income, Deductions, Credits, Etc.

(a) Distributive share items		(b) Amounts from federal K (1065)	(c) California Adjustments	(d) Total amounts using California law		
Income (Loss)	1 Ordinary income (loss) from trade or business activities (Side 1, line 22) . . .	1 ●				
	2 Net income (loss) from rental real estate activities. Attach federal Form 8825 . . .	2				
	3 a Gross income from other rental activities	3a				
	b Less expenses. Attach schedule	3b				
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c		●		
	4 Portfolio income (loss). See instructions:					
	a Interest income	4a		●		
	b Dividend income	4b		●		
	c Royalty income	4c		●		
	d Net capital gain (loss) (Schedule D (565))	4d				
e Other portfolio income (loss). Attach schedule	4e		●			
5 Guaranteed payments to partners	5		●			
6 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft). Attach Schedule D-1	6		●			
7 Other income (loss). Attach schedule	7					
Deduct- tions	8 Charitable contributions. See instructions. Attach schedule	8				
	9 Expense deduction for recovery property (R&TC Sections 17266, 17267.2, 17267.6 and 17268 and IRC Section 179). Attach schedule or worksheet for 179 deductions	9				
	10 Deductions related to portfolio income.	10				
	11 Other deductions. Attach schedule.	11				
Invest- ment Interest	12 a Interest expense on investment debts	12a		●		
	b (1) Investment income included on lines 4a, 4b, 4c and and line 4e above	12b(1)				
	(2) Investment expenses included on line 10 above	12b(2)				
Credits	13 a (1) Withholding on partnership allocated to all partners	13a(1)				
	b Low-income housing credit	13b				
	c Credit(s) other than the credit shown on line 13b related to rental real estate activities. Attach schedule	13c				
	d Credit(s) related to other rental activities. See instructions. Attach schedule	13d				
	14 Other credits. See instructions. Attach schedule	14		●		
Adjust- ments and Tax Prefer- ence Items	15 a Depreciation adjustment on property placed in service after 1986 . . .	15a				
	b Adjusted gain or loss	15b				
	c Depletion (other than oil and gas)	15c				
	d (1) Gross income from oil, gas and geothermal properties . . .	15d(1)				
	(2) Deductions allocable to oil, gas and geothermal properties . .	15d(2)				
	e Other adjustments and tax preference items. Attach schedule . .	15e				
Other	16 a Total expenditures to which IRC Section 59(e) election may apply. Attach schedule	16a				
	b Type of expenditures	16b				
	17 Tax-exempt interest income	17				
	18 Other tax-exempt income	18		●		
	19 Nondeductible expenses	19				
	20 Distributions of money (cash and marketable securities).	20				
	21 Distribution of property other than money	21				
	22 Other items and amounts reported separately to partners. See instructions. Attach schedule	22				
Analysis	23 a Total distributive income/payment items. Combine line 1 through line 7 above. From the result, subtract the sum of line 8 through line 12a and line 16a . .	23		●		
	b Analysis by type of partner:					
	(a) Corporate	(b) Individual		(c) Partnership	(d) Exempt Organization	(e) Nominee/ Other
		i. Active	ii. Passive			
(1) General partners						
(2) Limited partners						

Schedule L Balance Sheets. See the instructions for Question N before completing Schedules L, M-1 and M-2.

Assets	Beginning of taxable year		End of taxable year	
	(a)	(b)	(c)	(d)
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	()		()	
3 Inventories				●
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets. Attach schedule.				●
7 Mortgage and real estate loans				
8 Other investments. Attach schedule				●
9 a Buildings and other depreciable assets				
b Less accumulated depreciation	()		()	●
10 a Depletable assets				
b Less accumulated depletion	()		()	
11 Land (net of any amortization)				●
12 a Intangible assets (amortizable only)				
b Less accumulated amortization.	()		()	
13 Other assets. Attach schedule				●
14 Total assets				
Liabilities and Capital				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities. Attach schedule				
18 All nonrecourse loans				●
19 Mortgages, notes, bonds payable in 1 year or more.				●
20 Other liabilities. Attach schedule				●
21 Partners' capital accounts				●
22 Total liabilities and capital				

Schedule M-1 Reconciliation of Income per Books With Income per Return. Use total amount under California law.

1 Net income (loss) per books		6 Income recorded on books this year not included on Schedule K, line 1 through line 7. Itemize:	
2 Income included on Schedule K, line 1 through line 7, not recorded on books this year. Itemize ●		a Tax-exempt interest \$	●
3 Guaranteed payments (other than health insurance)		7 Deductions included on Schedule K, line 1 through line 12a and line 16a, not charged against book income this year. Itemize:	
4 Expenses recorded on books this year not included on Schedule K, line 1 through line 12a and line 16a. Itemize:		a Depreciation \$	●
a Depreciation \$		8 Total of line 6 and line 7	
b Travel and entertainment \$		9 Income (loss) (Schedule K, line 23a). Subtract line 8 from line 5	
c Limited partnership tax \$ ●			
5 Total of line 1 through line 4			

Schedule M-2 Analysis of Partners' Capital Accounts

1 Balance at beginning of year		6 Distributions: a Cash ●	
2 Capital contributed during year ●		b Property ●	
3 Net income (loss) per books		7 Other decreases. Itemize	
4 Other increases. Itemize ●		8 Total of line 6 and line 7	
5 Total of line 1 through line 4		9 Balance at end of year. Subtract line 8 from line 5	

1998**Partner's Share of Income,
Deductions, Credits, etc.****K-1 (565)**

For calendar year 1998 or fiscal year beginning month _____ day _____ year 1998, and ending month _____ day _____ year _____

Partner's identifying number Partner's name, address, state and ZIP Code	Partnership's FEIN Secretary of State file number Partnership's name, address, state and ZIP Code
--	---

A Is this partner a: ● (1) ☐ general partner; or (2) ☐ limited partner?**B** What type of entity is this partner? ●

- | | | |
|--|--|---|
| (1) <input type="checkbox"/> Individual | (5) <input type="checkbox"/> General Partnership | (8) <input type="checkbox"/> LLC |
| (2) <input type="checkbox"/> S Corporation | (6) <input type="checkbox"/> Limited Partnership | (9) <input type="checkbox"/> IRA/Keogh/SEP |
| (3) <input type="checkbox"/> Estate/Trust | (7) <input type="checkbox"/> LLP | (10) <input type="checkbox"/> Exempt Organization |
| (4) <input type="checkbox"/> C Corporation | | |

C Is this partner a foreign partner? ● ☐ Yes ☐ No
D Enter partner's percentage (without regard to special allocations) of:

(i) Before decrease or termination	(ii) End of year
------------------------------------	------------------

Profit sharing	_____ %	● _____ %
Loss sharing	_____ %	● _____ %
Ownership of capital	_____ %	● _____ %

E Partner's share of liabilities:

Nonrecourse	● \$ _____
Qualified nonrecourse financing	● \$ _____
Other	● \$ _____

F Tax shelter registration number _____**G** (1) Check here if this is a publicly traded partnership as defined in IRC Section 469(k)(2). ☐(2) Check here if this is an investment partnership (R&TC Section 17955 and 23040.1). ☐**H** Check here if this is: ●(1) ☐ a final Schedule K-1 (565) (2) ☐ an amended Schedule K-1 (565)**I** Is this partner a nonresident of California? ► ☐ Yes ● ☐ No**J** Analysis of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of line 3, line 4 and line 7 Form 565, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine column (a) through column (d))
● _____	● _____	● _____	(_____)	● _____

Caution: Refer to Partner's Instructions for Schedule K-1 (565) before entering information from this schedule on your tax return.

	(a) Distributive share item	(b) Amount from federal Schedule K-1 (1065)	(c) Adjustments	(d) Total amounts using California law (Combine col. (b) and col. (c))	(e) California source amounts and credits
Income (Loss)	1 Ordinary income (loss) from trade or business activities			● _____	► _____
	2 Net income (loss) from rental real estate activities.			● _____	► _____
	3 Net income (loss) from other rental activities				
	4 Portfolio income (loss):				
	a Interest			● _____	► _____
	b Dividends			● _____	► _____
	c Royalties			● _____	► _____
Deductions	d Net capital gain (loss)			● _____	► _____
	e Other portfolio income (loss). Attach schedule			● _____	► _____
	5 Guaranteed payments to partners			● _____	► _____
	6 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft)			● _____	► _____
	7 Other income (loss). Attach schedule			● _____	► _____
	8 Charitable contributions				
	9 Expense deduction for recovery property (R&TC Sections 17266, 17267.2, 17267.6 and 17268 and IRC Section 179). Attach schedule				
	10 Deductions related to portfolio income. Attach schedule				
	11 Other deductions. Attach schedule				

	(a) Distributive share item	(b) Amount from federal Schedule K-1 (1065)	(c) Adjustments	(d) Total amounts using California law (Combine col. (b) and col. (c))	(e) California source amounts and credits
Investment Interest	12 a Interest expense on investment debts				
	b (1) Investment income included on lines 4a, 4b, 4c and 4e				
	(2) Investment expenses included on line 10				
Credits	13 a (1) Withholding on partnership allocated to all partners				
	(2) Partnership withholding on nonresident partners				
	(3) Total withholding (equals amount on Form 592-B if calendar year partnership)				
	b Low-income housing credit				
	c Credits other than line 13b related to rental real estate activities. Attach schedule.				
	d Credits related to other rental activities. See instructions. Attach schedule . . .				
	14 Other credits. Attach required schedules or statements.				
Adjustments and Tax Preference Items	15 a Depreciation adjustment on property placed in service after 1986				
	b Adjusted gain or loss				
	c Depletion (other than oil and gas) . . .				
	d (1) Gross income from oil, gas and geothermal properties				
	(2) Deductions allocable to oil, gas and geothermal properties				
	e Other adjustments and tax preference items. Attach schedule				
Other	16 a Total expenditures to which an IRC Section 59(e) election may apply .				
	b Type of expenditures				
	17 Tax-exempt interest income.				
	18 Other tax-exempt income				
	19 Nondeductible expenses				
	20 Distributions of money (cash and marketable securities)				
	21 Distributions of property other than money				
	22 Supplemental information required to be reported separately to each partner. Attach additional schedules. See instructions. \$ _____				

Table 1 — Partner's share of nonbusiness income from intangibles (source of income is dependent on residence or commercial domicile of the partner):

Interest \$ _____ Sec 1231 Gains/Losses \$ _____ Capital Gains/Losses \$ _____
Dividends \$ _____ Royalties \$ _____ Other \$ _____

FOR USE BY APPORTIONING UNITARY PARTNERS ONLY — See instructions.

Table 2 — Partner's share of distributive items.

- A. Partner's share of the partnership's business income. See instructions. \$ _____
- B. Partner's share of nonbusiness income from real and tangible property sourced or allocable to California.
Capital Gains/Losses \$ _____ Rents/Royalties \$ _____
Sec 1231 Gains/Losses \$ _____ Other \$ _____
- C. Partner's share of the property, payroll and sales:

Factors	Total within and outside California	Total within California
Property: Beginning	\$	\$
Ending	\$	\$
Payroll	\$	\$
Sales	\$	\$

1998 Depreciation and Amortization

3885P

[illegible]

1998 Capital Gain or Loss

D (565)

Name as shown on return						FEIN	
1	(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Sales price. See instructions.	(e) Cost or other basis. See instructions.	(f) Gain (loss) ((d) minus (e))	
1	Enter line 1, column (f) total here					1	
2	Capital gain from installment sales, form FTB 3805E, line 26 or line 37					2	
3	Partnership's share of net capital gain (loss), including gains (losses) from LLCs, partnerships, fiduciaries and S corporations					3	
4	Capital gain distributions					4	
5	Net capital gain (loss). Add line 1, line 2, line 3 and line 4. Enter total on Schedule K, line 4d, and each partner's share on Schedule K-1 (565), line 4d					5	

1998 Depreciation and Amortization

3885P

Name as shown on return

FEIN

Assets placed in service after 12/31/97 (depreciation):

Intangibles placed in service after 12/31/97 (amortization):

Depreciation of Assets

Amortization of Property

1	(a) Description of property	(b) Date placed in service	(c) Cost or other basis	(d) Method of figuring depreciation	(e) Life or rate	(f) Depreciation for this year	(g) Code section	(h) Period or percentage	(i) Amortization for this year
1	Enter line 1, column (f) and column (i) totals here.								

Depreciation

2	California depreciation for assets placed in service before January 1, 1998	2
---	---	---

Note: Be sure to make adjustments for any basis differences.

3 Total California depreciation. Add line 1(f) and line 2. **3**

Amortization

4	California amortization for intangibles placed in service before January 1, 1998	4
---	--	---

Note: Be sure to make adjustments for any basis differences.

5 Total California amortization. Add line 1(i) and line 4. 5

6 Total depreciation and amortization. Add line 3 and line 5. Enter the total here and on Form 565, Side 1, line 16a, if from a trade or business, or on federal Form 8825, line 14, if from rental real estate activities. 6

7	Section 179 expense election from worksheet. See instructions.	7	
---	--	---	--

8	Carryover of disallowed deduction to 1999.	8
---	--	---

1998 Capital Gain or Loss

D (565)

Name as shown on return

FEIN

[illegible]

1 Enter line 1, column (f) total here.

2 Capital gain from installment sales, form FTB 3805E, line 26 or line 37

3 Partnership's share of net capital gain (loss), including gains (losses) from LLCs, partnerships, fiduciaries and S corporations.

4 Capital gain distributions

5 Net capital gain (loss). Add line 1, line 2, line 3 and line 4. Enter total on Schedule K, line 4d, and each partner's share on Schedule K-1 (565), line 4d

Instructions for Form FTB 3885P

Depreciation and Amortization

General Information

In general, California tax law conforms to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal tax law. California has not conformed to the changes made to the IRC by the federal Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (Public Law 105-206) and the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277).

California law is the same as federal law regarding:

- Exemption of the incremental cost of a fuel vehicle from the limits on depreciation for vehicles;
- Suspension of taxable income limit on percentage depletion for marginal production properties for tax years beginning after December 31, 1997, and before January 1, 2000;
- Limitations on property for which the income forecast method may be used; and
- Recognition of gain for a constructive sale of property in which the partnership held an appreciated interest.

A Purpose

Use form FTB 3885P to compute depreciation and amortization allowed as a deduction on Form 565. Attach form FTB 3885P to Form 565.

Depreciation is the annual deduction allowed to recover the cost or other basis of business or income producing property with a determinable useful life of more than one year. Land is not depreciable.

Amortization is similar to the straight-line method of depreciation in that an annual deduction is allowed to recover certain costs of intangibles over a fixed period of time.

In general, California personal income tax law follows federal law for assets placed in service on or after January 1, 1987. See California Revenue and Taxation Code (R&TC) Section 17250.

B Calculation Methods

California did not allow depreciation under the federal ACRS for years prior to 1987.

California does not conform to federal law for accelerated depreciation for property on Indian reservations.

As a result of California legislation:

- Any grapevine replaced in a California vineyard in any taxable year beginning on or after January 1, 1997, as a direct result of Pierce's Disease will be considered five-year property for accelerated cost recovery provisions; and
- The corporate provision for the five-year amortization of child care facilities has been repealed.

Specific Line Instructions

Line 1 – California depreciation for assets placed in service after December 31, 1997 and amortization for intangibles placed in service after December 31, 1997

Complete column (a) through column (i) for each asset or group of assets or property placed in service after December 31, 1997. Enter the column (f) totals on line 1(f). Enter the column (i) totals on line 1(i).

Line 2 – California depreciation for assets placed in service before January 1, 1998

Enter total California depreciation for assets placed in service prior to January 1, 1998, taking into account any differences in asset basis or differences in California and federal tax law.

Line 4 – California amortization for intangibles placed in service before January 1, 1998

Enter total California amortization for intangibles placed in service prior to January 1, 1998, taking into account any differences in asset basis or differences in California and federal tax law.

As of January 1, 1994, California conformed to IRC Section 197 relating to the amortization of intangibles. No deduction is allowed under this section for any taxable year beginning prior to January 1, 1994. If a taxpayer made an election for federal purposes under the Revenue Reconciliation Act of 1993 (P.L. 103-66), relating to the election to have amendments apply to property acquired after July 25, 1991, or relating to an elective binding contract exception, a separate election for state purposes is not allowed under R&TC Section 17024.5(e)(3), and the federal election is binding. In the case of an intangible that was acquired in a taxable year beginning before January 1, 1994, and that is amortized under IRC Section 197, the amount to be amortized cannot exceed the adjusted basis of that intangible as of the first day of the first taxable year beginning on or after January 1, 1994. This amount must be amortized ratably over the period beginning with the first month of the first taxable year beginning on or after January 1, 1994, and ending 15 years after the month in which the intangible was acquired.

Assets with a Federal Basis Different from California Basis

Some assets placed in service on or after January 1, 1987, will have a different adjusted basis for California purposes due to the credits claimed or accelerated write-offs of the assets. Review the list of depreciation and amortization items in the instructions for Schedule CA (540), California Adjustments — Residents, and Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents. If the partnership has any other adjustments to make, get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, for more information.

Line 6 – Total Depreciation and Amortization

Add line 3 and line 5. Enter the total on line 6 and on Form 565, Side 1, line 16a.

If depreciation or amortization is from more than one trade or business activity, or from more than one rental real estate activity, the partnership should separately compute depreciation for each activity. Use the depreciation computed on this form to identify the net income for each activity. Report the net income from each activity on an attachment to Schedule K-1 (565) for purposes of passive activity reporting requirements. Use California amounts to determine the depreciation amount to enter on line 14 of federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation.

Form FTB 3885P Instructions

Line 7 – Enter the IRC Section 179 expense election amount from the following worksheet.

These limitations apply to the partnership and each partner.

Election to Expense Certain Tangible Property (IRC Section 179)

Note: Follow the instructions on federal Form 4562 for listed property.

1. Maximum dollar limitation	\$ 16,000
2. Total cost of IRC Section 179 property placed in service during the tax year	
3. Threshold cost of IRC Section 179 property before reduction in limitation	\$200,000
4. Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	
5. Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-	

(a) Property	(b) Cost	(c) Elected cost
6.		

- | | |
|--|--|
| 7. Listed property. Use federal Form 4562, Part V, line 27, making any adjustments for California law and basis differences | |
| 8. Total elected cost of IRC Section 179 property. Add amounts in column (c), line 6 and line 7 | |
| 9. Tentative deduction. Enter the smaller of line 5 or line 8. | |
| 10. Carryover of disallowed deduction from 1997. See instructions for line 9 through line 12 on the federal Form 4562 | |
| 11. Income limitation. Enter the smaller of line 5 or the aggregate of the partnership's items of income and expense described in IRC Section 702(a) from any business actively conducted by the partnership (other than credits, tax-exempt IRC Section 179 expense deduction and guaranteed payments under IRC Section 707(c)) | |
| 12. IRC Section 179 expense deduction. Add line 9 and line 10, but do not enter more than line 11. Enter on Schedule K (565), line 9 and on form FTB 3885P, line 7 | |
| 13. Carryover of disallowed deduction to 1999. Add line 9 and line 10 and subtract line 12. Enter here and on line 8 of form FTB 3885P | |

Instructions for Schedule D (565)

Capital Gain or Loss

General Information

Use Schedule D (565) to report the sale or exchange of capital assets, except capital gains (losses) that are specially allocated to any partners. Do not use this form to report the sale of business property. For sales of business properties use California Schedule D-1, Sale of Business Property.

Enter specially allocated capital gains (losses) received from limited liability companies, partnerships, S corporations and fiduciaries on Schedule D (565), line 3. Enter capital gains (losses) that are specially allocated to members on line 4d of Schedule K-1 (565). Do not include these amounts on Schedule D (565). See the instructions for Schedule K (565) and Schedule K-1 (565) for more information. Also refer to the instructions for federal Schedule D (1065).

California law now conforms to federal law for the recognition of gain for a constructive sale of property in which the partnership held an appreciated interest.

Caution: Do not enter the amount of gain that qualifies for the 50% exclusion under Revenue and Taxation Code (R&TC) Section 18152.5 on Schedule D (565). Instead, report the entire amount of the gain that qualifies for the exclusion on Schedule K (565), line 7. Each partner must determine if he or she qualifies for the exclusion at the partner level.

R&TC Section 18152.5 provides an exclusion (similar to the federal exclusion under IRC Section 1202) of 50% of the gain on the sale of qualifying small business stock originally issued after August 8, 1993, and before January 1, 1999, that was held for more than 5 years. However, for California purposes, 80% of the issuing corporations payroll must be attributable to employment located within California, and at least 80% of the value of the corporations assets must be used by the corporation to actively conduct one or more qualified trades or businesses in California.

Instructions for Form FTB 3538

Payment Voucher for Automatic Extension for Limited Partnerships, LLPs and REMICs

General Information

If a limited partnership, limited liability partnership (LLP) or real estate mortgage investment conduit (REMIC) cannot file its California partnership return by the 15th day of the 4th month following the close of the taxable year (fiscal year) or April 15, 1999 (calendar year), it may file its partnership return on or before the 15th day of the 10th month following the close of the taxable year (fiscal year) or October 15, 1999 (calendar year), without filing a written request for an extension.

If the return is filed by the 15th day of the 10th month following the close of the taxable year (fiscal year) or October 15, 1999 (calendar year), the return will qualify for the extension.

However, an extension of time to **file** the limited partnership, LLP or REMIC return is not an extension of time to **pay** the \$800 annual tax.

Use the payment voucher below to mail in the \$800 annual tax payment by the 15th day of the 4th month following the close of the taxable year (fiscal year) or April 15, 1999 (calendar year).

Where to File

Detach and mail the voucher portion along with the payment to:

FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0651

Penalties and Interest

If the limited partnership, LLP or REMIC fails to **pay** 100% of its total tax liability by the 15th day of the 4th month following the close of the taxable year (fiscal year) or April 15, 1999 (calendar year), a late payment penalty plus interest will be added to the partnership tax due. If the limited partnership, LLP or REMIC does not **file** its return by the 15th day of the 10th month following the close of the taxable year (fiscal year) or October 15, 1999 (calendar year), the return will not qualify for an extension and a late filing penalty and interest will be assessed.

How to Complete Form FTB 3538

Enter all the information requested on this form. To ensure the timely and proper application of this payment to the partnership's account, enter the federal employer identification number (FEIN) and the Secretary of State (SOS) file number (assigned upon registration with the SOS).

----- DETACH HERE -----

TAXABLE YEAR

1998

Payment Voucher for Automatic Extension for Limited Partnerships, LLPs and REMICs

CALIFORNIA FORM

3538

For calendar year 1998 or fiscal year beginning month _____ day _____ year 1998, and ending month _____ day _____ year	
Partnership/LLP/REMIC name	Federal employer identification number (FEIN)
DBA/Attention	Secretary of State file number
Delivery address	
City, town or post office	State ZIP Code
Make the check or money order payable to "Franchise Tax Board." Write the FEIN and "FTB 3538 1998" on it. Mail this voucher and the check or money order to: FRANCHISE TAX BOARD PO BOX 942857 SACRAMENTO CA 94257-0651	
(Calendar year — Due April 15, 1999)	Amount of payment

**5
6
5**

353898109

FTB 3538 1998

Partner's Instructions for Schedule K-1 (565)

General Information

A Purpose

The partnership uses Schedule K-1 (565) to report your distributive share of the partnership's income, deductions, credits, etc. Please keep this schedule for your records. Do not file it with your tax return. The partnership has filed a copy with the Franchise Tax Board (FTB).

Although the partnership is not subject to income tax, you are subject to tax on your share of the partnership income, whether or not distributed.

The amount of loss and deduction you may claim on your tax return may be less than the amount reported on Schedule K-1 (565). Generally, the amount of loss and deduction you may claim is limited to your basis in the partnership and the amount for which you are considered at-risk. If you have losses, deductions or credits from a passive activity, you must also apply the passive activity rules. It is the partner's responsibility to consider and apply any applicable limitations. See Specific Instructions C, Loss Limitations.

You should read the federal Schedule K-1 (1065) instructions before completing your tax return with this Schedule K-1 (565) information.

For more information on the treatment of partnership income, deductions, credits, etc., get the following federal publications: Publication 541, Tax Information on Partnerships, and Publication 535, Business Expenses.

Any information returns required for federal purposes under Internal Revenue Code (IRC) Sections 6038, 6038A and 6038B are also required for California purposes. Attach the information returns to the partner's California return when filed. If the information returns are not provided, penalties may be imposed under R&TC Sections 19141.2 and 19141.5.

B Definitions

General Partner

An individual or entity owning interest in a partnership who is personally liable for partnership debts and who is authorized to act on behalf of the partnership.

Limited Partner

An individual or entity owning interest in a partnership whose potential personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership.

Nonrecourse Loans

Liabilities of the partnership for which none of the partners have assumed any personal liability.

Qualified Nonrecourse Financing

Any financing for which no one is personally liable for repayment that is borrowed for use in an activity of holding real property and that is loaned or guaranteed by a federal, state or local government or borrowed from a "qualified" person.

California Business Situs

The place at which intangible personal property is employed as capital in California; or the place where the property is located if possession and control of the property is localized in connection with the taxpayer's business that is within the state, so that substantial use or value attaches to the property. The term is generally used in reference to:

- The income of nonresidents from intangible personal property, such as shares of corporate stocks, bonds, notes, bank deposits and other indebtedness; or
- The income of nonresidents from rents or royalties for the use of, or for the privilege of using in this state, patents, copyrights, secret processes, formulas, goodwill, trademarks, trade brands, franchises and other like property.

Apportionment

The process by which business income from a trade or business conducted in two or more states (an apportioning trade or business) is divided between taxing jurisdictions. The apportionment percentage is determined by reference to the California property, payroll and sales factors of the apportioning trade or business.

Unitary

A method of taxation by which all of the activities comprising a single trade or business are viewed as a single unit, regardless of whether those activities are conducted by divisions of a single entity or by commonly owned or controlled entities. For further information about unitary business principles, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

Elections

The choice of a particular accounting method for tax reporting purposes. Generally, the partnership decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use.

However, certain elections are made by you separately on your individual income tax return and not by the partnership. These elections are made under the following IRC Sections, to which California Revenue and Taxation Code (R&TC) conforms:

- IRC Section 108(b)(5) (income from discharge of indebtedness); and
- IRC Section 617 (deduction and recapture of certain mining exploration expenditures, paid or incurred).

Additional Definitions

For definitions of a partnership, general partnership, limited partnership, limited liability partnership, etc., see the instructions for Form 565, Partnership Return of Income, and the instructions for federal Form 1065, U.S. Partnership Return of Income.

C Reporting Information from Columns (d) and (e)

If the partnership income is from activities both within and outside California, the partnership will complete Schedule R, Apportionment and Allocation of Income, to determine the partnership income from California sources. As indicated on Schedule K-1 (565), resident partners will use only the information in column (c) and column (d) to report their share of the partnership's income or loss.

Nonresident, corporate and other entity partners must report their share of income apportioned or allocated to California as indicated on Schedule K-1 (565). Special rules apply if a partner and the partnership engage in a unitary business. See Title 18, Cal. Code Reg. Sections 17951 and 25137-1 for more information. Also see General Information E, Unitary Partners. Nonresident, corporate, and other entity partners (other than partners that are unitary with the partnership) will use the information in columns (c), (d) and (e) to report their distributive share of income (losses) or credits. Residents, part-year residents and some nonresidents may qualify for a credit for taxes paid to other states on income that is apportioned or allocated to a state other than California. For more information get Schedule S, Other State Tax Credit.

Nonapportioning partnerships do not need to fill out column (e) on Schedule K-1 (565) if the partner is a resident and the "No" box is checked on Question I. However, the final determination of residency is made at the partner level. If the partnership is uncertain as to the residency status of the partner, it should fill out column (e) for that partner.

D Income Not from a Trade Or Business of the Partnership (Nonbusiness Income)

If the partnership has income that is not from a trade or business (nonbusiness income), the source of that nonbusiness intangible income will be determined at the partner level. However, nonbusiness income from real or tangible property

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located in California, such as rents, royalties, gains or losses is California source income (Title 18 Cal., Code Reg. Section 17951-3 and R&TC Sections 25124 and 25125). This information should be included on the appropriate line of column (e), as well as in Table 2, Part B, if the partnership believes it is unitary with the partner, or if the partnership is uncertain whether it is unitary with the partner. Non-unitary partners should ignore the information in Table 2 and use column (e).

The source of income from all nonbusiness intangibles will depend on whether the partner is required to apportion its income and whether the partner is a corporation. In most cases, income from nonbusiness intangible property is sourced at the residence or commercial domicile of the partner.

However, for individuals, estates, trusts and S corporations that are not required to apportion income, income from nonbusiness intangibles will have a California source if the intangible has acquired a California business situs. For example, a nonresident pledges stocks, bonds or other intangible personal property in California. This pledge is security for the payment of debt, taxes, or other liabilities incurred for a business in the state. The pledged property will acquire a business situs in California. Another example is a nonresident who maintains an office and bank account in California for the business activities in the state. The bank account will acquire a business situs in California. See Title 18, Cal. Code Reg. Section 17951-2 and R&TC Section 17952. If the intangible income is determined to have a business situs by the partnership, the intangible income will be included in column (e).

If the partner is an apportioning taxpayer or a corporation, Title 18, Cal. Code Reg. Sections 17951-4 and 25137-1 require that nonbusiness income from intangibles be allocated in accordance with the rules of R&TC Sections 25126 and 25127.

Because the source of intangible nonbusiness income is dependent upon the status of the individual partner, that income is not included in column (e) and is entered only in Table 1. The partner must determine the source of such income by applying the rules described above.

E Unitary Partners (This section generally applies to apportioning partnerships only.)

Note: The following rules apply not only to corporations, but to individuals or other entities that conduct a trade or business that is unitary with the partnership's trade or business (see Title 18, Cal. Code Reg. Section 17951, incorporating the provisions of Section 25137 and regulations thereunder).

Unitary partners cannot use the California source information reflected in column (e). Such partners must use the information in Table 1 and Table 2 as described below.

The partner's distributive share of partnership items is determined by applying the partnership rules in R&TC Sections 17851 through 17858. The determination of the portion of the distributive share of business and nonbusiness income that has its source in this state or that is includible in the partner's business income subject to apportionment is made in accordance with Title 18, Cal. Code Reg. Section 25137-1 if the partner, or the partnership, or both, have income from sources within and outside this state. The partner, in computing net income for its tax accounting period, must include its distributive share of partnership items referred to above for any partnership taxable year ending within or with the partner's tax accounting period.

Distributive Items of Business Income

Apportionment of Business Income – Unitary Business —

If the partnership's activities and the partner's activities constitute a unitary business under established standards (other than ownership requirements), the combined business income of this single trade or business apportioned to California is determined by combining the partner's distributive share of the partnership's apportionment factors with the factors of the partner for any partnership year ending within the partner's tax accounting period. Combined business income is then apportioned by using a 3 or 4 factor formula consisting of

property, payroll and a single or double-weighted sales factor of the partner. Use of a 3 factor formula depends upon whether combined gross business receipts (partner's share of the partnership's gross business receipts plus the partner's own gross business receipts) are more than 50% from agricultural, extractive, savings and loans, banking or financial business activities.

If you are a partner that is unitary with a partnership, use Table 2 to compute your factors, applying the rules shown below (see Title 18, Cal. Code Reg. Section 25137-1 for examples). Partners that are unitary with the partnership should perform the following steps:

1. Combine your distributive share of the partnership's business income with your own business income to determine total business income.
2. Compute property, payroll and sales factors by combining the partnership's factors from Table 2, Part C, with your own factors as explained below.
3. Apply the apportionment factor determined in Step 2 to the total business income determined in Step 1 to arrive at business income apportioned to this state.

1. Unitary Partner's Computation of Property Factor

Use Schedule R to compute the numerator and the denominator of the property factor. Adjust factors in accordance with Title 18, Cal. Code Reg. Sections 25130 and 25131. Also apply the following special rules:

- A. Include in the denominator of your property factor your distributive share of the partnership's beginning and ending balances of real and tangible property (owned or rented) and used during the tax accounting period in the regular course of business. See Table 2, Part C.
- B. Include in the numerator of your property factor the value of such property that is described in 1A above that is located in California. See Table 2, Part C.
- C. See Title 18, Cal. Code Reg. Section 25137-1(f)(1)(B) for examples of how to avoid duplication of the value of property that is rented by the partner to the partnership or vice versa.

2. Unitary Partner's Computation of Payroll Factor

Use Schedule R to compute the numerator and the denominator of the payroll factor in accordance with Title 18, Cal. Code Reg. Sections 25132 and 25133. Apply the following special rules:

- A. Include in the denominator of your payroll factor your distributive share of the partnership's payroll used to produce business income. See Table 2, Part C; and
- B. Include in the numerator any such payroll described in 2A that is applicable to California. See Table 2, Part C.

3. Unitary Partner's Computation of the Sales Factor

Compute the numerator and denominator of the sales factor in accordance with Title 18, Cal. Code Reg. Sections 25134 to 25136. Apply the following special rules:

- A. Include in the denominator of the sales factor your distributive share of the partnership's sales that give rise to business income. See Table 2, Part C;
- B. Include in the numerator of your sales factor the amount of such sales described in 3A attributable to California; and
- C. Eliminate intercompany sales as follows:
 - Sales by the partner to the partnership to the extent of the partner's interest in the partnership; or
 - Sales by the partnership to the partner not to exceed the partner's interest in all partnership sales (see Title 18, Cal. Code Reg. Section 25137-1(f)(3)).

Distributive Items of Nonbusiness Income for a Unitary Partner

Income in Table 2, Part B, is from a California source under R&TC Sections 25124 and 25125. Because Schedule K-1 (565), column (e) data is not utilized by a unitary partner, unitary partners must make certain to separately include such items as California source income.

Specific Instructions

A Questions and Items

The partnership completes the questions and items on the Schedule K-1 (565) for all partners. For more information, see the federal instructions for Schedule K-1 (1065).

B Schedule K-1 (565)

Important Note to Partners: If your Schedule K-1 (565) reports losses and/or deductions, you must first apply the basis, at-risk and the passive activity loss limitations before such losses/deductions can be deducted on your return. See Specific Instructions C, Loss Limitations. Also, see IRC Section 705(a) for information on how to compute basis. If your return is ever examined, you may be required to provide your computations and the supporting documents for your partnership interest.

If you are an individual partner, the amounts in column (c), Adjustments, and column (d), Total amounts using California law, that are from nonpassive activities must be reported on the appropriate California form or schedule; i.e., Schedule D, California Capital Gain or Loss Adjustment, Schedule D-1, Sales of Business Property, Schedule CA (540), California Adjustments — Residents, or Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents.

Amounts in column (e), California source amounts and credits, that are from passive activities must be reported on form FTB 3801, Passive Activity Loss Limitations, or form FTB 3802, Corporate Passive Activity Loss and Credit Limitations. Use the related worksheets to figure any passive loss limitations. If the partnership knows that you are a California resident it may leave column (e) blank. California residents are subject to tax on their entire taxable income shown in column (d) (R&TC Section 17041).

If you are not an individual partner, report the amounts as instructed on your tax return.

If you have losses, deductions, credits, etc., from a prior year that were not deductible or usable because of certain limitations they may be taken into account in determining your net income, loss, etc., for this year. However, do not combine the prior-year amounts with any amounts shown on this Schedule K-1 (565) to get a net figure. Instead, report the amounts on an attached schedule, statement or form on a year-by-year basis. See the federal instructions for Schedule K-1 (1065) for more information.

C Loss Limitations

The amounts shown on line 1 through line 3 of your Schedule K-1 (565) reflect your distributive share of income from the partnership's business or rental operations. If you have losses from the partnership, you should be aware that there are three potential limitations imposed on losses which you may deduct on your tax return. These limitations and the order in which they must be applied are as follows:

- Basis rules (IRC Section 704);
- At-risk rules (IRC Section 465); and
- Passive loss rules (IRC Section 469).

Each of these limitations are discussed separately below.

Note: Other limitations may apply to specific deductions such as the investment interest expense deduction. These limitations on specific deductions generally apply before the basis, at-risk and passive loss limitations.

Basis Rules

Generally, California tax law is the same as federal tax law concerning basis limitations. You may not claim your share of a partnership loss (including a capital loss) that is greater than the adjusted basis of your partnership interest at the end of the partnership's taxable year.

The partnership is not responsible for keeping the information needed to compute the basis of your partnership interest. Although the partnership does provides you with an analysis of the changes to your capital account on your Schedule

K-1 (565), Item J, that information is based on the partnership's books and records and should not be used to compute your basis.

You can compute the basis of your partnership interest by adding items that increase your basis and then subtracting items that decrease your basis.

Items that increase your basis are:

- Money and the adjusted basis of property you contributed to the partnership;
- Your distributive share of the partnership's income; and
- Your distributive share of the increase in the liabilities of the partnership (and/or your individual liabilities caused by your assumption of partnership liabilities).

Items that decrease your basis, but not below zero, are:

- Money and the adjusted basis of property distributed to you;
- Your share of the partnership's losses; and
- Your share of the decrease in the liabilities of the partnership (and/or your individual liabilities assumed by the partnership).

This is not a complete list of items and factors that determine basis. Get federal Publication 541 for a complete discussion of how to determine the basis of your partnership interest.

At-Risk Rules

The at-risk rules generally limit the amount of loss, (including loss on disposition of assets) and other deductions (such as IRC Section 179, R&TC Sections 17266, 17267.2, 17267.6 and 17268 deduction) that you can claim to the amount you could actually lose in the activity.

If you have: (1) a loss or other deduction from an activity carried on as a trade or business or for the production of income by the partnership; and (2) amounts in the activity for which you are not at-risk, you will have to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your return. Complete federal Form 6198 using California amounts.

See the federal instructions for Schedule K-1 (1065), At-Risk Limitations, and federal publication 925, Passive Activity and At-Risk Rules, for more information.

Passive Loss Rules

IRC Section 469 limits the deduction of certain losses and credits. California law is generally the same as this federal provision. These rules apply to partners who have a passive activity loss or credit for the taxable year.

For California purposes, the passive loss limitations apply to:

1. Individuals;
2. Estates;
3. Trusts (other than grantor trusts);
4. Closely held corporations; and
5. S Corporations.

Even though the passive loss rules do not apply to grantor trusts, partnerships, and limited liability companies, they do apply to the owners of these entities.

A passive activity is generally a trade or business activity in which the partner does not materially participate or a rental real estate activity in which the partner does not actively participate. A partnership may have more than one activity. Each partner must apply the passive activity loss limitations on an activity by activity basis.

Individuals, estates and trusts and S corporations must complete form FTB 3801, to calculate the allowable passive losses, and form FTB 3801-CR, Passive Activity Credit Limitations, to calculate the allowable passive credits. Corporations must complete form FTB 3802.

The amounts reported on Schedule K-1 (565), line 1 and line 14 are normally passive activity income (loss) or credits from the trade or business of the partnership if you are a limited partner, or if you are a general partner who did not materially participate in the trade or business activities of the partnership. The amounts reported on Schedule K-1 (565), line 2, line 3 and line 13b are from rental activities of the partnership and are passive activity income (loss) or credits to

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all partners. There is an exception to this rule for losses incurred by qualified investors in qualified low-income housing projects. The partnership will identify any of these qualified amounts on an attachment for line 2.

The passive loss rules apply separately to the items attributable to each publicly traded partnership (PTP) that is not treated as a corporation under IRC Section 7704. Thus, partners who do not materially participate in the operations of a PTP are allowed to deduct their share of the PTP's losses only to the extent of passive income from the same PTP or when the entire interest is sold (IRC Section 469(k)). See the instructions for form FTB 3801 and form FTB 3802 for the rules to calculate and report income, gains and losses from passive activities that you held through each PTP you owned during the tax year.

See the federal instructions for Schedule K-1 (1065), Passive Activity Limitations, and federal publication 925 for more information.

D Investment Partnership Income

If you are a nonresident individual, the amounts in column (e) will generally not be taxable by California (R&TC Section 17955). However, nonresident individuals will be taxed on their distributive share of California source income from an investment partnership if the income from the qualifying investment securities is interrelated with:

- Any other business activity of the nonresident partner; or
- Any other entity in which the nonresident partner owns an interest that is separate and distinct from the investment activity of the partnership and that is conducted in California.

If you are a corporate partner, the amounts in column (e) will also generally not be taxable in California provided the income from the partnership is the corporation's only California source income. However, if the corporation:

- Participates in the management of the investment activities of the partnership or is engaged in a unitary business with another corporation, or partnership that participates in the management of the investment activities of the partnership; or
- Has income attributable to sources within California other than income from the investment partnership;

Then the corporation will be taxable on its distributive share of California source income of the partnership. See R&TC Section 23040.1 for more details.

Specific Line Instructions

Enter the difference between federal and California amounts from column (c) on Schedule CA (540), if you are a resident; or on Schedule CA (540NR), if you are a nonresident. Also, if you are a nonresident, enter California source amounts from the Schedule K-1 (565), column (e), on your Schedule CA (540NR), column E.

If the box for Item G(1) is checked, the partnership is a publicly traded partnership (PTP) as defined in IRC Section 469(k)(2). Follow the instructions for form FTB 3801 or form FTB 3802 for reporting income, gains and losses from PTPs.

If the box for Item G(2) is checked, the partnership is an investment partnership as defined in R&TC Sections 17955 and 23040.1. If you are a nonresident individual, the amounts in column (e) will generally not be taxable in California. See Specific Instructions D, Investment Partnership Income, for additional information.

Note to Nonresident Partners: The specific line instructions below that instruct you to enter information from Schedule K-1 (565), column (d), on other forms, apply to resident partners. When the instructions make reference to column (d), nonresident partners should take information from columns (c), (d) and (e) and apply the information to the appropriate line relating to computation of total income and income from California sources.

A Income (Loss)

Line 1 – Ordinary Income (Loss) from Trade or Business Activities

The amount reported on line 1, column (d), is your share of the ordinary income (loss) from the trade or business activities of the partnership. For individual partners, where you report this amount on Form 540 or Form 540NR depends on whether or not this amount is a passive activity to you.

If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the income on form FTB 3801 or form FTB 3802. If a loss is reported on line 1, column (d), report the loss on the applicable line of form FTB 3801 or form FTB 3802 to determine how much of the loss is allowable.

Note: If the partnership has income from activities both within and outside California, the amount nonresidents or corporate partners must report on their tax returns is a function of the partnership's apportionment percentage and allocation of income. Reporting instructions are included in the information provided by the partnership. See also Title 18, Cal. Code Reg. Sections 17951-4 and 25137-1 for more information. Also see General Information E, Unitary Partners.

Line 2 – Income (Loss) from Rental Real Estate Activities

Generally, the income (loss) reported on line 2, column (d), is a passive activity amount to all partners. However, the loss limitations of IRC Section 469 do not apply to qualified investors in qualified low-income housing projects. If applicable, the partnership will attach a schedule for line 2 to identify such amounts. You will have to report the California adjustment amount from column (c) on Schedule CA (540 or 540NR).

Use the following instructions to determine where to enter the line 2 amount.

- If you have a loss on line 2, column (d) (other than a qualified low-income housing project loss), enter the loss on the applicable line of form FTB 3801 or form FTB 3802 to determine how much of the loss is allowable. Your share of the loss may be eligible for the special \$25,000 allowance for rental real estate losses. Get the instructions for form FTB 3801 or form FTB 3802 for more information.

See the federal Specific Instructions for line 2, item 1 and item 2 for more information.

Note: If you are a qualified investor reporting a qualified low-income housing project loss, report any California adjustment amount from column (c) on Schedule CA (540 or 540NR).

- If you have only income on line 2, column (d), and no other passive losses, enter any California adjustment amount from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the line 2, column (d), income on the applicable line of form FTB 3801 or form FTB 3802.

Line 3 – Income (Loss) from Other Rental Activities

The amount on line 3, column (d) is a passive activity amount for all partners.

- If line 3, column (d) is a loss, report the loss on the applicable line of form FTB 3801 or form FTB 3802.
- If only income is reported on line 3, column (d), and you have no other passive losses, report the California adjustment from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the line 3 income on the applicable line of form FTB 3801 or form FTB 3802.

Line 4a
through

Line 4e – Portfolio Income (Loss)

Portfolio income (loss) referred to as "portfolio" in these instructions is generally not subject to the passive activity limitations of IRC Section 469. Portfolio income includes interest, dividend and royalty income and gain or loss on the

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sale of property held for investment. If you have amounts on Schedule K-1 (565), line 4a through line 4e, report these amounts as follows:

- Line 4a, column (c) — Report on Schedule CA (540 or 540NR), line 8, column B or line 8, column C, whichever is applicable;
- Line 4b, column (c) — Report on Schedule CA (540 or 540NR), line 9, column B or line 9, column C, whichever is applicable;
- Line 4c, column (c) — Report on Schedule CA (540 or 540NR), line 17, column B or line 17, column C, whichever is applicable;
- Line 4d, column (d) — Report on Schedule D; and
- Line 4e, column (d) — Report on applicable schedule.

Caution: Generally, amounts reported on line 4d and line 4e are gains or losses attributable to the disposition of property held for investment and are, therefore, classified as portfolio income (loss). If, however, an amount reported on line 4d or line 4e, column (d) is a passive activity amount, the partnership should identify the amount.

The partnership uses line 4e, column (d), to report portfolio income other than interest, dividend, royalty and capital gain (loss) income. The partnership should attach a schedule to Schedule K-1 (565) to tell you what kind of portfolio income is reported on line 4e, column (d). An example of portfolio income that could be reported on line 4e, column (d), is from a real estate mortgage investment conduit (REMIC) in which the partnership is a residual interest holder.

If the partnership has a residual interest in a REMIC, it will report your share of REMIC taxable income (net loss) on the schedule. Report the adjustment amount from column (c) on Schedule CA (540 or 540NR). The partnership will also report your share of "excess inclusion" and your share of IRC Section 212 expenses. If you itemize your deductions on federal Schedule A (1040), you may deduct these IRC Section 212 expenses as a miscellaneous deduction.

Line 5 – Guaranteed Payments to Partners

Amounts on this line are not normally part of a passive activity. If there is an amount on Schedule K-1 (565), line 5, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or line 21f, column C, whichever is applicable.

Line 6 – Net Gain (Loss) Under IRC Section 1231 (Other Than Due to Casualty or Theft)

If the amount on line 6 relates to rental activity, the IRC Section 1231 gain (loss) is a passive activity amount. If the amount relates to a trade or business activity and you are a limited partner, the IRC Section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount to you, report it on Schedule D-1, line 2, column (g) or column (h), whichever is applicable. You do not have to complete column (b) through column (f). Write "From Schedule K-1 (565)" across these columns.
- If a gain is reported on line 6, column (d), and it is a passive activity amount to you, report the gain on Schedule D-1, line 2, column (h), and be sure to see "Passive Loss Limitations" in the instructions for Schedule D-1.
- If a loss is reported on line 6, column (d), and it is a passive activity amount to you, see "Passive Loss Limitations" in the instructions for Schedule D-1. You must use form FTB 3801 to determine how much of the loss is allowed on Schedule D-1.

Line 7 – Other Income (Loss)

Amounts reported on this line are other items of income (loss) not included on line 1 through line 6. The partnership should give you a description for each of these items.

Use the instructions below to:

- Report income or gain (not losses) from passive activities, or
- Report income, gain or losses from all other passive activities.

If you have losses from passive activities, or a combination of income, gains and losses from passive activities, you must first complete form FTB 3801 or FTB 3802 to determine if any of your losses are limited by the passive loss rules. Use the instructions below to report passive income and losses after the passive loss limitations have been computed.

Line 7 items may include:

- Partnership gains from disposition of farm recapture property (get Schedule D-1) and other items to which IRC Section 1252 applies;
- Recoveries of bad debts, prior taxes and delinquency amounts (IRC Section 111). Report the amount from line 7, column (c), on Schedule CA (540 or 540NR), line 21f, column B or line 21f, column C, whichever is applicable;
- Gains and losses from wagering (IRC Section 165(d)). Report the amount from line 7, column (c), on Schedule CA (540 or 540NR), line 21f, column B or line 21f, column C, whichever is applicable;
- Any income, gain or (loss) to the partnership under IRC Section 751. Report this amount on Schedule D-1, line 10;
- Specially allocated ordinary gain or (loss). Report this amount on Schedule D-1, line 10;
- Net gain or (loss) from involuntary conversions due to casualty or theft. The partnership will give you a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, Section B, Part II, line 34, column (b)(i), column (b)(ii) and column (c); and
- Eligible gain from the sale or exchange of qualified small business stock (as defined in R&TC Section 18152.5 and issued after August 10, 1993 but before January 1, 1999). Also, the name of the corporation that issued the stock and the adjusted basis of that stock should be reported on the attachment to Schedules K (565) and K-1 (565). Any differences between IRC Section 1202 and R&TC Section 18152.5 should be included on line 7, column (c).

B Deductions

Line 8 – Charitable Contributions

The partnership will provide a schedule that shows which contributions were subject to the 50%, 30% and 20% limitations. For further information, see the instructions for federal Form 1040.

If there is an amount on Schedule K-1 (565), line 8, column (c), enter this amount on Schedule CA (540 or 540NR), line 38.

Line 9 – Expense Deduction for Recovery Property

The maximum amount of expense deduction for recovery property for California purposes R&TC 17255 (IRC Section 179 deduction) that you can claim for all sources is \$16,000. The \$16,000 limit is reduced if the total cost of IRC Section 179 property placed in service during the year exceeds \$200,000.

The partnership will provide information on your share of the IRC Section 179 deduction and of the cost of the partnership's IRC Section 179 property so that you can compute this limitation. Your IRC Section 179 deduction is also limited to your taxable income from all of your trades or businesses. See form FTB 3885A, Depreciation and Amortization Adjustments – Individuals, and get federal Publication 534, Depreciating Property Placed In Service Before 1987, for more information.

If the IRC Section 179 deduction is a passive activity amount, report it on the applicable line of form FTB 3801. If it is not a passive activity amount and there is an amount on Schedule K-1 (565), line 9, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or line 21f, column C, whichever is applicable.

Refer to R&TC Sections 17266, 17267.2, 17267.6 and 17268 on how to figure the expense deduction for recovery property in an economic development area.

Line 10 – Deductions Related to Portfolio Income

Amounts entered on this line are the deductions that are clearly and directly allocable to portfolio income (other than investment interest expense and expenses from a REMIC). If you have an

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amount on Schedule K-1 (565), line 10, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or column C, as applicable. If any of the line 10 amount should not be reported on Schedule CA (540 or 540NR), the partnership should identify that amount for you.

Line 11 – Other Deductions

Amounts on this line are deductions not included on line 8 through line 10. If there is an amount on Schedule K-1 (565), line 11, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR).

See the federal instructions for Schedule K-1 (1065), line 11, for examples of other deductions. Also see FTB Pub. 1001 for differences between federal and California tax law for certain deductions.

C Investment Interest

If the partnership paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited.

For more information and the special provisions that apply to investment interest expense, get form FTB 3526, Investment Interest Expense Deduction, and federal Publication 550, Investment Income and Expenses.

Line 12a – Interest Expense on Investment Debts

Enter the amount from column (d) on form FTB 3526 along with your investment interest expense from any other sources. Form FTB 3526 will help you determine how much of your total investment interest is deductible.

Line 12b(1)

&

Line 12b(2) – Investment Income and Investment Expenses

Use the column (d) amounts to determine the amount to enter on form FTB 3526, line 1.

Caution: The amounts shown on line 12b(1) and line 12b(2) include only investment income and expenses included on lines 4a, 4b, 4c, 4e and line 10 of this Schedule K-1 (565). The partnership should attach a schedule that shows the amount of any investment income and expenses included in any other lines of this Schedule K-1 (565). Use these amounts, if any, to adjust line 12b(1) and line 12b(2) to determine your total investment income and total investment expenses from this partnership.

Combine these totals with investment income and expenses from all other sources to determine the amount to enter on form FTB 3526, line 1.

D Credits

If you have credits that are passive activity credits to you, you must complete form FTB 3801-CR (or form FTB 3802 for corporations) in addition to the credit forms referenced. Get the instructions for form FTB 3801-CR (or form FTB 3802) for more information.

Line 13a(1) – Withholding on Partnership Allocated to All Partners

If taxes were withheld from payments to the partnership by another entity, this withholding is allocated to all partners according to their respective interests in the partnership. Your share is entered on line 13a(1).

Line 13a(2) – Partnership Withholding on Nonresident Partners

If taxes were withheld-at-source on you as a domestic or foreign nonresident partner, the amount of the withholding is entered on line 13a(2).

Line 13a(3) – Total Withholding

Add together the amounts (if any) on line 13a(1) and line 13a(2) to get the total amount of withholding credit you have for the partnership year. If taxes were withheld by the partnership or if there is a pass-through withholding credit from another entity, the partnership must provide you a completed Form 592-B, Nonresident Withholding Tax Statement. You must attach Form 592-B to the front of your California income

or franchise tax return to claim the amount withheld, even if you are a resident. The amount shown on the Form 592-B should be claimed on:

- Form 540, California Resident Income Tax Return, line 38, or;
- Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, line 47, or;
- Form 541, California Fiduciary Income Tax Return, line 28, or;
- Form 109, California Exempt Organization Business Income Tax Return, line 22, or;
- Form 100, California Corporation Franchise or Income Tax Return, line 35, or;
- Form 100S, California S Corporation Franchise or Income Tax Return, line 35.

Schedule K-1 (565) may not be used to claim the withholding credit. If the partnership is not on a calendar year, the amount on line 13a(3) may not match the amount on Form 592-B because of the difference in accounting periods.

Line 13b – Low-Income Housing Credit

Your share of the partnership's low-income housing credit is shown on line 13b, column (d). Any allowable credit is entered on form FTB 3521, Low-Income Housing Credit. The passive activity credit limitations of IRC Section 469, however, may limit the amount of credit you take. Credits from passive activities are generally limited to tax attributable to passive activities.

Caution: You cannot claim the low-income housing credit on any qualified low-income housing project for which any person was allowed any benefit under IRC Section 502 of the Tax Reform Act of 1986.

Line 13c – Other Credits Related to Rental Real Estate Activities

If applicable, the partnership will use this line, through an attached schedule, to give you the information you need to compute credits related to rental real estate activities other than the low-income housing credit.

Line 13d – Credits Related to Other Rental Activities

If applicable, the partnership will use this line, through an attached schedule, to give you the information you need to compute credits related to rental activities other than rental real estate activities.

Line 14 – Other Credits

If applicable, the partnership will use this line, through an attached schedule, to give you the information you need to compute credits related to a trade or business activity.

Credits that may be reported on line 14 (depending on the type of activity they relate to) include:

- Community Development Financial Institution Deposits credit. Use credit code 209.
- Disabled Access for Eligible Small Business credit — get form FTB 3548.
- Donated Agricultural Products Transportation credit — get form FTB 3547.
- Employer Child Care Program/Contribution credit — get form FTB 3501.
- Enhanced Oil Recovery credit — get form FTB 3546.
- Enterprise Zone (EZ) Hiring & Sales or Use Tax credits — get form FTB 3805Z.
- Farmworker Housing Credit-Construction credit. Use credit code 207.
- Farmworker Housing Credit-Loan. Use credit code 208.
- Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax credits — get form FTB 3807.
- Manufacturers' Investment credit — get form FTB 3535.
- Prison Inmate Labor credit — get form FTB 3507.
- Research credit — get form FTB 3523.
- Rice Straw credit. Use credit code 206.
- Salmon and Steelhead Trout Habitat Restoration credit. Use credit code 200.
- Manufacturing Enhancement Area (MEA) Hiring credit — get form FTB 3808.

Schedule K-1 (565) Instructions

- Targeted Tax Area (TTA) Hiring and Sales or Use Tax credits – get form FTB 3809.

Note: The passive activity limitations of IRC Section 469 may limit the amount of credits on line 13b, line 13c, line 13d and line 14. Line 13b, line 13c and line 13d credits are related to the rental activities of the partnership. Line 14 credits are related to the trade or business activities of the partnership. In general, passive activity credits, as defined in R&TC Section 17561, from passive activities are limited to tax attributable to passive activities for California purposes. Credits that may be limited under the passive activity credit rules are the:

- Research credit; and
- Low-income housing credit.

You may be able to use the low-income housing credit, and other credits generated from rental activities, against tax on other income. See form FTB 3801-CR, Passive Activity Credit Limitations, for more information.

The partnership has included on line 14 your distributive share of net income taxes paid to other states by the partnership. Subject to the limitations of R&TC Section 18006, partners may claim a credit against their individual tax for net income taxes paid by the partnership to another state. The amount of tax paid is required to be supported by a copy of the return filed with the other state and evidence of the payment of the tax. Get Schedule S, Other State Tax Credit, for more information.

E Adjustments and Tax Preference Items

Line 15a
through
Line 15e

col. (d) – Use the information reported on line 15a through line 15e, column (d) as well as your adjustments and tax preference items from other sources to complete Schedule P (540), Alternative Minimum Tax and Credit Limitations — Residents; Schedule P (540NR), Alternative Minimum Tax and Credit Limitations — Nonresidents or Part Year Residents; Schedule P (541), Alternative Minimum Tax and Credit Limitations — Fiduciaries; or Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations. For additional information, see the federal instructions for Schedule K-1 (1065), Adjustments and Tax Preference Items, line 16a through line 16e.

F Other

Line 16
through
Line 19

– See the federal instructions for Schedule K-1 (1065), Other, line 18 through line 21. The partnership should give you a description and the amount of your share for each item applicable to California in this category.

Line 22 – The partnership will provide supplemental information required to be reported to you on this line. If the partnership is claiming tax benefits from an EZ, LARZ, LAMBRA, MEA or TTA it will give you the business income and business capital gains and losses apportioned to the EZ, LARZ, LAMBRA, MEA or TTA on this line. Get form FTB 3805Z, FTB 3806, FTB 3807, FTB 3808 or FTB 3809 to claim any applicable credit.

The partnership may have provided an amount showing your proportionate interest in the partnership's aggregate gross receipts, less returns and allowances on this line. A qualified taxpayer may exclude income, positive and negative adjustments and preference items attributable to any trade or business from alternative minimum taxable income. A "qualified taxpayer" is defined as an individual, estate or trust that:

- Is the owner of, or has an ownership interest in a trade or business; **and**
- Has aggregate gross receipts, less returns and allowances, of less than \$1,000,000 during the taxable year from all trades or businesses in which the taxpayer is an owner or has an ownership interest. In the case of an ownership interest, you should include only your proportional share of aggregate gross receipts of any trade or business from a

partnership, limited liability company (LLC), S corporation, regulated investment company (RIC), real estate investment trust (REIT) or real estate mortgage investment conduit (REMIC).

You need to add your share of the aggregate gross receipts from this partnership to your aggregate gross receipts from all other trades or businesses in which you hold an interest to determine if you are a qualified taxpayer.

For purposes of R&TC Section 17062(b)(4), "aggregate gross receipts, less returns and allowances" means the sum of:

- The gross receipts of the trades or businesses which the taxpayer owns;
- The proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns; or
- The proportional interest of pass-through entities gross receipts in which the taxpayer holds an interest. "Gross receipts" means the sum of the gross receipts from the production of business income, as defined in subdivision (a) of R&TC Section 25120, and the gross receipts from the production of nonbusiness income, as defined in subdivision (d) of R&TC Section 25120.

For purposes of this section "pass-through entity" means a partnership (as defined by R&TC Section 17008), an S corporation, a RIC, a REIT, and a REMIC. See R&TC Section 17062 for more information.

See the federal instructions for Schedule K-1 (1065), line 25, for examples of supplemental information to be reported here. Also, see FTB Pub. 1001 for a listing of items of nonconformity for individuals.

G Table 1

Generally, nonbusiness interest and dividends are sourced to the state of residence for nonapportioning individuals. Nonapportioning means doing business entirely within California. For more information regarding the sourcing of intangibles, see R&TC Section 17952.

For apportioning partners, nonbusiness interest and dividends generally are allocable to California if the taxpayer's commercial domicile is California. For information regarding sourcing of intangibles for apportioning taxpayers, see R&TC Sections 24126 and 25127.

The income data contained in Table 1 is not reflected in column (e) of Schedule K-1 (565). For additional information, see General Information D, Income Not from a Trade or Business of the Partnership.

H Table 2

The final determination of unity is made at the partner's level.

If the partner and the partnership are engaged in a single unitary business or if the partnership is uncertain as to whether it is unitary with the partner, the partnership will furnish the information in Table 2.

The partner's share of the partnership's business income is entered on Table 2, Part A. The partner then adds that income to its own business income and apportions the combined business income using the revised factor described below.

Table 2, Part B reflects the partner's share of nonbusiness income from real and tangible property wholly sourced or allocable to California. This is added to apportioned business income and nonbusiness intangible income allocated to California and becomes a part of California taxable income. For more information on sourcing intangibles, see R&TC Sections 25124 and 25125 and Title 18, Cal. Code Reg. Sections 17951-1, 17951-2 and 17951-3.

The partner's share of the partnership's property, payroll and sales factors is in Table 2, Part C. The partner combines its apportionment factors with the apportionment factors of the partnership and uses the revised factor to compute its business income apportioned to California. For further information, see General Information D, Income Not from a Trade or Business of the Partnership.

How to Get California Tax Information

General Toll-Free Phone Service

Between January 4 – April 15, 1999, our general toll-free phone service is available:

- Monday – Friday, 6 a.m. until midnight; and
- Saturday, 8 a.m. until 5 p.m.

After April 15, 1999, our general toll-free phone service is available:

- Monday – Friday, 7 a.m. until 8 p.m.

The best times to call are before 10 a.m. and after 6 p.m. (PST).

From within the United States (800) 852-5711

From outside the United States (916) 845-6500
(not toll-free)

From hearing impaired with TDD (800) 822-6268

For federal tax questions,
call the IRS at (800) 829-1040

Asistencia Bilingüe en Español

Para obtener servicios en Español y asistencia para completar su declaración de impuestos/formularios, llame al número de teléfono (anotado arriba) que le corresponde.

Letters

We can serve you by phone if you call us for information to complete your California tax return. However, you may want to write to us if you are replying to a notice we sent you, or to get a written reply.

If you write to us, be sure your letter includes your FEIN, your daytime and evening telephone numbers and a copy of the notice. Send your letter to:

FRANCHISE TAX BOARD
PO BOX 942840
SACRAMENTO CA 94240-0040

We will respond to your letter within 6 to 8 weeks. In some cases, we may need to call you for additional information.

Where to Get Income Tax Forms

By Internet – If you have Internet access, you may download, view and print 1994 through 1998 California tax forms and publications. Our Internet address is:
<http://www.ftb.ca.gov>

By phone – Call our general toll-free phone numbers listed above under “General Toll-Free Phone Service” to get the California tax forms you need.

By mail – Please allow 2 weeks to receive your order. If you live outside California, please allow 3 weeks to receive your order. Write to:

TAX FORMS REQUEST UNIT
FRANCHISE TAX BOARD
PO BOX 307
RANCHO CORDOVA CA 95741-0307

In person – Most libraries, post offices and banks provide free California personal income tax booklets during the filing season. Many libraries and some quick print businesses have forms and schedules for you to photocopy (you may have to pay a nominal fee). Please note that employees at libraries, post offices, banks and quick print businesses cannot provide tax information or assistance.

Your Rights As A Taxpayer

Our goal at the Franchise Tax Board is to make certain that your rights are protected, so that you will have the highest confidence in the integrity, efficiency and fairness of our state tax system. FTB Pub. 4058, California Taxpayers' Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayers' Rights Advocate Program and how you can request written advice from the Franchise Tax Board on whether a particular transaction is taxable. See “Where to Get Income tax forms” on this page for how to get FTB Pub. 4058.

District Offices

You can get information, California tax forms and resolve problems on your account if you visit one of our district offices.

District Office	Address
Bakersfield	1800 30th St, Ste 370
Burbank	333 N. Glenoaks Blvd, Rm 200
Fresno	2550 Mariposa St, Rm 3002
Long Beach	4300 Long Beach Blvd, Ste 700B
Los Angeles	300 S. Spring St, Ste 5704
Oakland	1515 Clay St, Ste 3N-305
Sacramento	3321 Power Inn Road
San Bernardino	464 W. 4th St, Ste 454
San Diego	5353 Mission Ctr Rd, Ste 314
San Francisco	50 Fremont St, Ste 900
San Jose	96 N. Third St, 4th Floor
Santa Ana	600 W. Santa Ana Blvd, Ste 300
Santa Rosa	50 D St, Rm 130
Stockton	31 East Channel St, Rm 219
Ventura	4820 McGrath St, 2nd Floor
West Covina	100 N. Barranca St, Rm 600

